Islamic Republic of **Iran**

سازمان توسعه تجارت ایران
Trade Promotion Organization of Iran

National Export Strategy 2021-2025

Auto Parts Strategy

Moving towards a dynamic sector with efficient production and high-quality exports

This Auto Parts Strategy was developed as part of the National Export Strategy of Iran on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.

ITC is the joint agency of the World Trade Organization and the United Nations. As part of ITC's mandate of fostering sustainable development through increased trade opportunities, the Research and Strategies for Exports section offers a suite of trade-related strategy solutions to maximize the development pay-offs from trade. ITC-facilitated trade development strategies and roadmaps are oriented to the trade objectives of a country or region and can be tailored to high-level economic goals, specific development targets or particular sectors, allowing policymakers to choose their preferred level of engagement.

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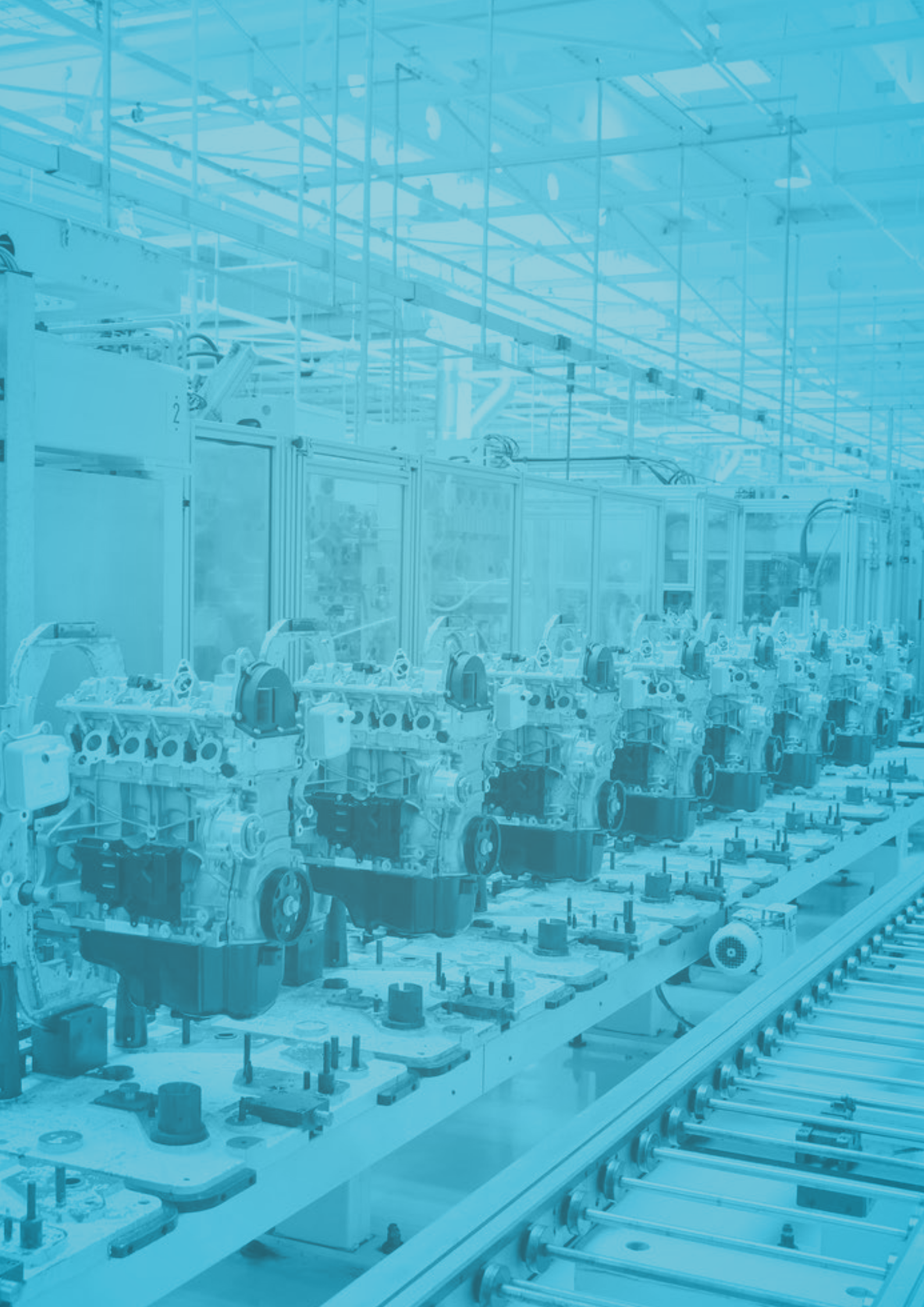


FOREWORD
BY THE MINISTRY OF INDUSTRY, MINE, AND TRADE

Non-oil exports have become increasingly important to Iran in recent years. Increasing international trade is not only a means of boosting economic growth and the nation's welfare, but also contributes to strengthening international relations and the stabilization of economic and political affairs by paving the way for reinforcing friendly relations based on mutual interests with a wide range of trade partners. Trade is one of the most important forms of exchange between countries and fostering this will lead to connections such as foreign investments, scientific and technical exchanges, and cultural relations, all of which will contribute to the country's growth and prosperity in all respects. Hence, expanding trade would provide a basis for development in other areas of cooperation and is of great importance from this perspective. In addition to substantial investment to expand export potential, growing foreign trade requires strategic targeting as well as addressing constraints. In this context, Iran's Trade Promotion Organization developed a National Export Strategy (NES) with the support of the International Trade Center (ITC) that has similar experience in designing NES in more than 50 countries. The strategy is going to cover general trade-related factors such as ensuring export quality that is relevant to the export of all goods. It also addresses a number of sector-specific strategies in form of independent strategies. All activities in the framework of designing strategies have led to diagnosing sets of plans of actions in order to tackle issues and problems to facilitate export procedures.

The plan of actions indicated in the strategies will be implemented by I-TPO in close collaboration with national stakeholders during the next 5 years and I-TPO will enjoy ITC support during the implementation period.

I would like to thank each and every entity from the private sector, distinguished exporters as well as managers and exports from various ministries and institutions who have contributed to the development of the NES and sincerely appreciate their contributions. Also, the initiative would not be successful without supports from the European Union and the ITC. We hope all contributors to the designing of the NES would continue their support to the I-TPO during the course of implementation of the recommended actions so that we achieve the goals of this strategy in practice and we witness the export promotion of non-oil exports in our country.

Ministry of Industry, Mine, and Trade

FOREWORD
BY IRAN'S TRADE PROMOTION ORGANIZATION

The ITPO signed a Memorandum of Understanding with the International Trade Centre (ITC) in 2016 in order to benefit from its expertise in expanding non-oil exports. One of the most important clauses of this MOU concerned the development of the NES. Implementation of the memorandum materialized after the European Union (EU) made a fund available for the ITC to provide technical assistance to ITPO in 2018. The NES development process started at the beginning of the Iranian year 1398 (April 2019), enjoying the technical assistance of the ITC as well as the contribution of international experts. The result of the 1.5 years of cooperation is now being presented to you.

The following points as regards these documents are worth mentioning:

- The NES has been developed in collaboration with the public and private sectors, relying on the expertise of the ITC. In fact, public and private stakeholders in each sector were consulted by the experts of the ITC in the process of designing the NES and, therefore, the results are agreed upon by these entities. Reaching such a consensus on non-oil exports is unprecedented and thus the proposed plans of actions in the NES are of great importance.
- Around 500 key participants from the production and export sectors of the country have been consulted by the expert group of the ITPO and the ITC during the process of NES preparation.
- While proposed solutions envisaged in the document address Iran's specific problems, they also make use of worldwide experience and international expert's viewpoints.
- Independent International consultants have been consulted in addition to the ITC experts and their views have been reflected in the documents.
- International experts' field visits to production and export chains and sites played a key role in understanding the current situation and designing the NES.
- The implementation of planned activities of the NES will take several years and require the support of the ITC and international experts.
- Through the process of the NES development in each sector, a set of reviews, consultation with stakeholders, and also field visits were organized and strategic objectives were set in order to address problems and remove constraints at the first step; then, operational objectives were set under each strategic objective; after that, relevant activities were designed under each operational objective; and finally, a leading entity and its partners were listed for each activity. More than 350 actions have been designed in total. We expect that non-oil exports to be revolutionized as a result of the implementation of this plan of action. More information regarding the NES and expert recommendations are listed in the following table:

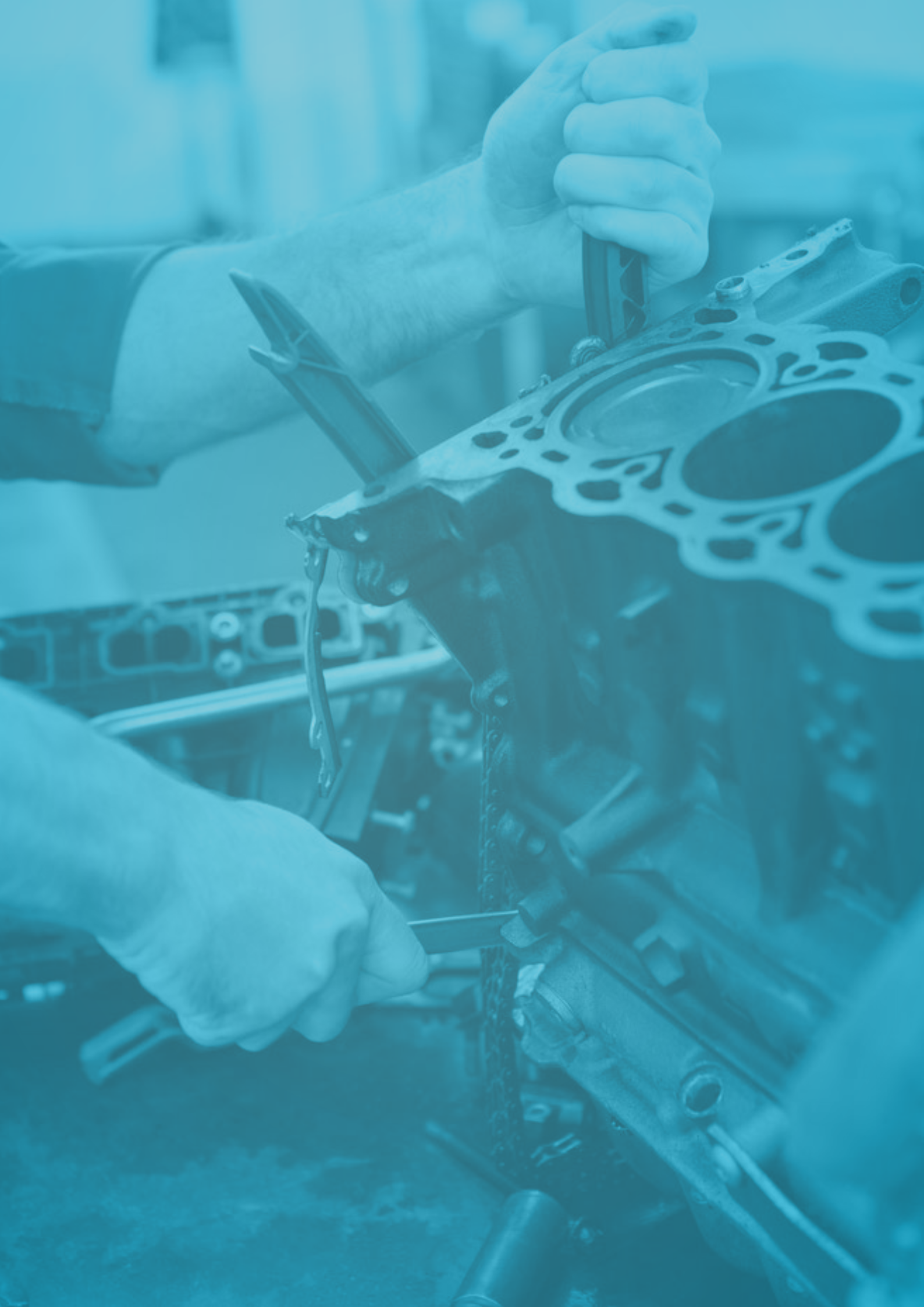
Sectors	Strategic Objectives	Operational Objectives	Activities
Fruits and Vegetables	3	11	47
Medicinal Herbs	3	13	40
Tourism	3	11	41
ICT	3	15	50
Auto parts	3	8	29
Petrochemicals	4	12	33
Trade information and Promotion	3	7	35
Quality Management	3	15	56
Entrepreneurship	3	10	28
Total	28	102	359

- The NES has been developed with the goals of:
  - » Fostering coherence and coordination between stakeholders at the sectoral and national levels;
  - » Elaborating a comprehensive approach to removing constraints and expanding exporting in priority sectors;
  - » Identifying and addressing exporters' needs for support services;
  - » Supporting the SMEs throughout the export process;
  - » Providing necessary training in priority sectors with the support of national and international experts;
  - » Developing export promotion and branding;
  - » Making effective use of ICT in export-oriented marketing; and
  - » Identifying and assigning appropriate entities for the implementation of the designed activities in the NES.

The design of the NES would not have been possible without the support of the ITC and its experts, who have experience in designing export strategies in more than 50 countries. The NES is also the result of cooperation between representatives of 17 national ministries and various organizations and stakeholders with mandates related to the promotion of non-oil exports. This collaboration benefitted the design of the NES. Also, the process enjoyed the network and sincere cooperation of Iran's Chamber of Commerce, Industry, Mine, and Agriculture in inviting the private sector to participate in consultation meetings and as a result, a large number of the private sector and associations' representatives and a variety of stakeholders were engaged. None of this would have taken place without the support of the EU and its work on "Trade for All" that is promoting economic and trade relations between countries as the best way to secure worldwide stability and peace.

Therefore, the ITPO, for its part, appreciates all entities and individuals who contributed to the designing of the NES. We hope to be privileged to have support from all actors in the implementation phase of the NES. Like the designing of the document that has resulted from the contribution of a wide range of national and foreign institutions and individuals, its implementation also could not happen without relying on all of those actors. Therefore, the ITPO, during the implementation phase, will seriously maintain and strengthen the established mechanisms and networks built during the course of the NES development. We hope that this move proves to be a big step towards the promotion of the non-oil export of the country and contributes to the improvement of the Iranian nation's living standards.

Iran's Trade Promotion Organization



FOREWORD
BY THE INTERNATIONAL TRADE CENTRE

Iran's place between east and west has long put it in a pivotal position in global trade. With natural resources, a rich tourism offer, high-quality agricultural products and a well-rooted manufacturing industry, the country is well positioned to take the next step toward greater trade-led growth.

The country has the potential to leverage its assets to become a centre of innovative digital solutions. With its highly-educated and productive labour force and investment attractiveness Iran could position itself to be a major exporter to markets across the region and around the world.

These strengths have been cultivated in a challenging external context. But there have also been clear domestic constraints which have contributed to impeding the realization of Iran's potential for growth. However, the need to build greater economic resilience, especially with the impact of global pandemics, has taken centre stage.

Against this backdrop, Iran has developed its new National Export Strategy (NES). The document reflects a growing consensus on the need to focus on trade-led growth to complement domestic resilience.

Trade-led success will require consistent and organized efforts. In developing the strategy, key actors have acknowledged the need to tackle the private sector's critical challenges. The NES proposes tailored solutions and leverages the country's strengths and competitive advantages.

During the consultations for this NES, all stakeholders recognized the need for further policy convergence and stronger coordination at the level of institutions if the country was to move forward. This coherence is at the core of the NES – joining forces toward a shared vision and making strategic choices that further develop the economy. The NES provides a framework for setting priorities, coordinating action and defining concrete steps. It was designed through analysis and consultation involving hundreds of voices from across the public and private sectors and input from international market experts.

The International Trade Centre (ITC) commends the leadership of the Ministry of Industry, Mine and Trade, the Iran Trade Promotion Organization and applauds the enthusiastic involvement of the private sector in the design of this strategy. ITC will continue to support Iran to ensure that the objectives of the NES are attained rapidly to support greater inclusive, sustainable, and resilient development.

Finally, ITC wishes to thank the European Union for its support to this initiative as part of its EU-Iran Trade Development project.

Pamela Coke-Hamilton
Executive Director of the International Trade Centre

ACKNOWLEDGMENTS

The Auto Parts Strategy forms an integral part of the Islamic Republic of Iran's National Export Strategy (NES). It was developed under the aegis of the Islamic Republic of Iran and the leadership of the Ministry of Industry, Mine and Trade (MoIMT) and the Trade Promotion Organization of Iran (ITPO). This strategy was elaborated thanks to the technical assistance of the International Trade Centre (ITC) and falls under the framework of the project "European Union (EU)–Iran Trade Development: Trade-Related Technical Assistance, capacity building, and value chain development for inclusive and sustainable trade-led growth in Iran".

The document benefited particularly from the inputs and guidance provided by the sector stakeholders that steered the formulation of the strategy, namely:

Institutions / Natural and Legal Persons
Ministry of Industry, Mine and Trade
• Deputy of Industries
• Directorate – General for Auto Industries
• ITPO's Deputy for Export Development
• ITPO's Desk for Auto and Machinery Industries
• Institute For Trade Studies and Research
Deputy of Planning and Development- The Industrial Development & Renovation Organization
Iran University of Science and Technology
Iran's Auto Parts Manufacturers Association
Iranian Specialized Manufacturers of Auto Parts Association
Iran's Consortium of Auto Parts Export
Representatives of companies active in Auto Parts sector (Irankhodro and SAIPA)

Technical support and guidance from ITC was rendered by the following people:

Name	Designation	Organization
Trade Strategy team		
• Ms. Barbara Oliveira Ramos	Chief, Research and Strategies for Exports	ITC
• Mr. Anton Said	Head, Trade Development Strategies Programme	ITC
• Mr. Eric Buchot	Senior advisor	ITC
Assisted by:		
• Ms. Alexandra Golovko	Associate advisor	ITC
• Mr. Derek Carnegie	International consultant	ITC
• Mr. Helmut Kohlert	International auto parts expert	ITC
ITC local team		
• Mr. Hassan Eftekharian	National auto parts expert	ITC
• Mr. Mirhadi Seyedi	ITC representative in Iran	ITC
• Mr. Majid Bahrami Forouzan	ITC representative in Iran	ITC
• Mr. Mehdi Yaghoubi	Media support consultant	ITC

NOTE TO THE READER

The Iran NES was developed on the basis of a participatory approach, during which more than 400 Iranian industry leaders, small business owners, farmers and public sector representatives held consultations to reach consensus on key sector competitiveness issues and priority activities. These inclusive consultations were held in Tehran and in some sector-specific regions, including Kerman, Yazd and Isfahan.

Besides in-depth research and value chain analysis, these consultations were complemented by:

- Factory visits where supply chain assessments were carried out to gain further knowledge on key issues such as quality procedures, technical skills, lean management, quality of raw materials and access to markets, etc.
- Interviews with domestic, regional and international buyers to guide the NES with strategic insights and market intelligence as well as buyers' requirements in terms of quality standards, food safety, packaging, buying cycles, distribution channels and prices, etc.

The NES is aligned with existing national and sector-specific plans and policies and builds on ongoing initiatives in areas related to private sector development, regional integration, investment and economic empowerment of youth. Equally importantly, the NES initiative already accommodates budgeting to support implementation of critical pilot activities identified during the design process. This will ensure that impact and momentum are generated from early on, and support further resource mobilization and confidence-building.

The principal outputs of the Iran NES design initiative are endorsed, coherent and comprehensive export strategy documents with a five-year detailed plan of action (PoA) and implementation management framework. These documents include:

I. A main NES document, which contains trade support functional strategies, offering critical support across value chains and acting as enablers for sector development;
II. Individual NES priority sector strategies packaged as separate documents, but in alignment with the main NES findings and overarching strategic objectives.

NES Iran	Main NES document including trade support functional strategies: • Quality management • Trade information and promotion • Entrepreneurship
	Individual NES priority sector documents: • Fruits and vegetables • Medicinal herbs • Information and communication technology (ICT) • Tourism • Petrochemicals • Automobile parts

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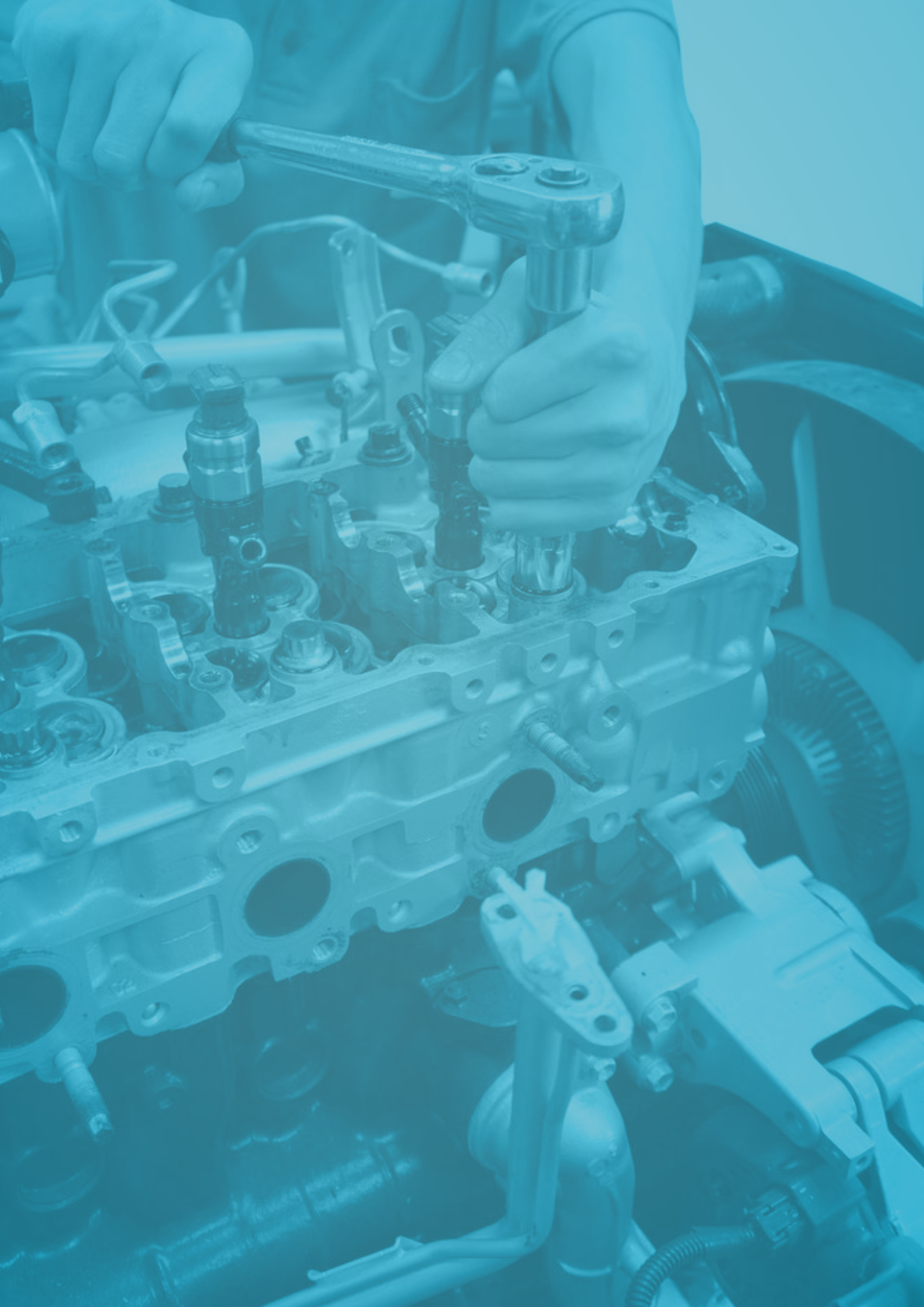
ACRONYMS AND ABBREVIATIONS

FDI	Foreign direct investment
GDP	Gross domestic product
ITC	International Trade Centre
MoIMT	Ministry of Industry, Mine and Trade
NES	National Export Strategy
PoA	Plan of action
SMEs	Small and medium-sized enterprises



EXECUTIVE SUMMARY

Auto parts manufacturing plays a key role in Iran's large automotive sector, and has the potential to grow by reaching out to new markets through exporting, improving competitiveness, and expanding into the production of more advanced and higher-value-added components. This document highlights the sector strengths that must be leveraged and the constraints facing the sector that must be addressed in the sector strategy in order to develop an efficient and export-oriented auto parts sector.

Globally, the auto parts sector and automotive manufacturing are generally major contributors to international flows of trade and investment. Emerging trends – including the rise of new sources of demand in middle-income economies, shifting regulations and market expectations on vehicles and components, and technological change – will require parts producers to be flexible in order to succeed.

The performance and potential of the auto parts sector have been driven by natural assets and exogenous factors such as:

- The large domestic automotive sector and proximity to important export markets;
- Sector organization factors such as established and growing capacity in auto parts production and supportive government policy;
- Human and technology factors, particularly high levels of human capital.

Auto parts are exported directly and also indirectly, as components in finished vehicles. Both have recently made modest contributions to Iran's exports, though the automotive sectors account for a large and fast-growing share of manufacturing activity in the country.

Fostering export-led growth in the sector by building on its strengths has the potential to generate employment directly, as it also facilitates growth and improved competitiveness in other areas of the economy, especially in manufacturing.

Multiple fundamental constraints complicate the achievement of this potential, however. Factors limiting the ability of firms to compete internationally include the need for improved price competitiveness in the face of heightened competition at home and abroad, as well as the need to improve the quality of parts and develop more technology-intensive products to adapt to changing demand and succeed in new markets. The scope for connecting firms to markets and investors is constrained by the focus of firms on supplying the domestic market and the concentration of exports in a small number of foreign markets. The potential to change and improve the sector's prospects is affected by challenges in attracting additional inflows of foreign investment and the limited competition and dynamism in the sector and domestic market.

The implementation of the Auto Parts Strategy will help to address these constraints and direct the sector towards a future with improved competitiveness and a stronger export orientation, the capacity to adapt to a changing global automotive sector and shifts in demand, and broad-based growth within the sector and in other areas of the Iranian economy. The strategy is thus framed by the vision of "a dynamic auto parts sector with efficient production and high-quality exports" through three strategic objectives:

Strategic Objective 1: Attract investment to increase technology intensity and strengthen firm capacities for upgrading

Increasing investment in the auto parts sector and other automotive activities will be critical in achieving the goals set out for the sector's growth. Expanded production to increase exports, improved technology use for increased firm efficiency, and the development of higher-quality and higher-value-added products are among the main benefits of investment. To these ends, the strategy will include actions on implementing regulatory reforms and targeting investment promotion

activities. Financial initiatives and other actions to foster and support research and development and design activities in particular will also be needed.

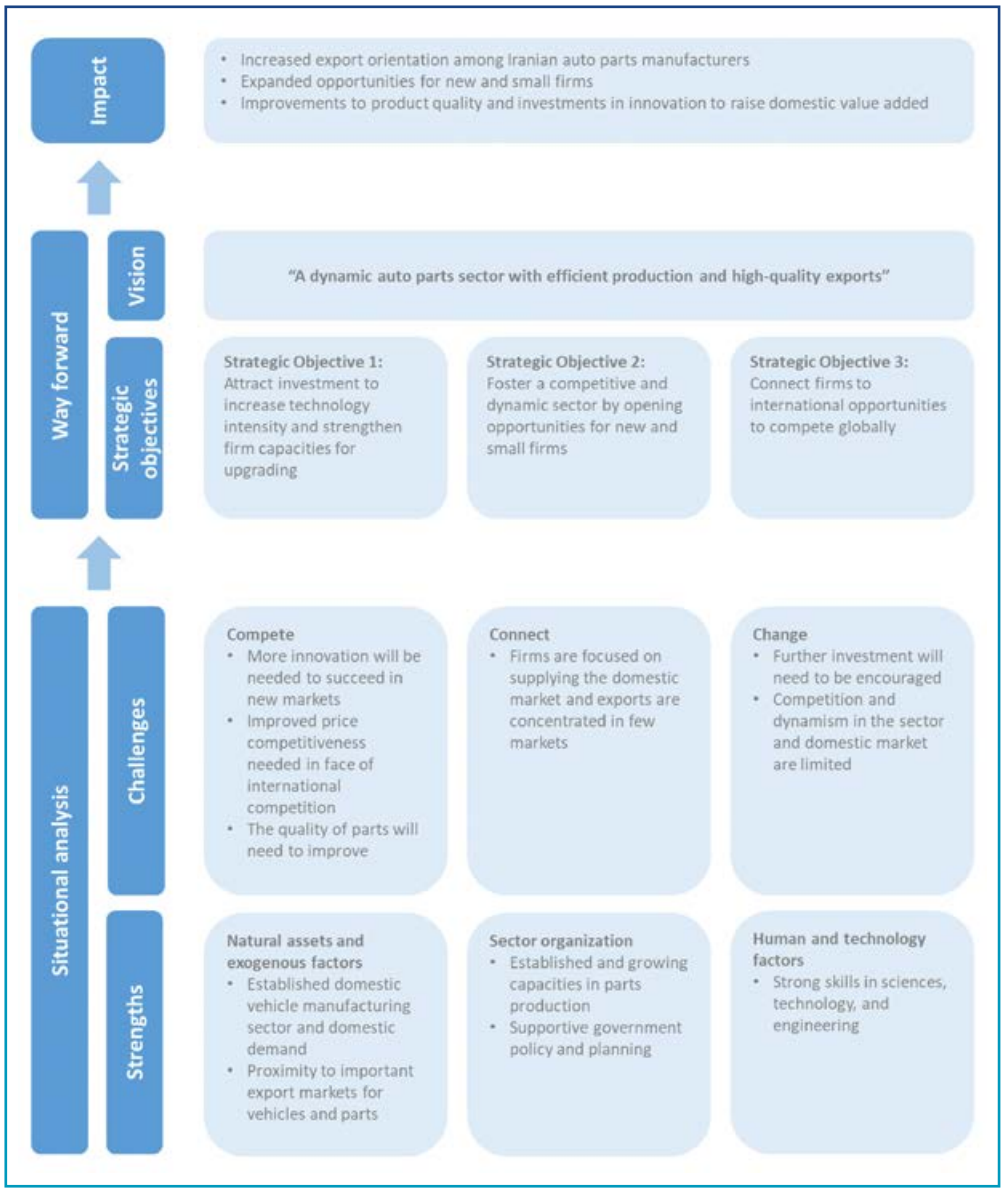
Strategic Objective 2: Foster a competitive and dynamic sector by opening opportunities for new and small firms

A dynamic sector is needed to enhance competitiveness, particularly in the face of increasing international competition and the pursuit of international opportunities. Actions to improve access to finance, especially among small firms with difficulties in accessing finance, will be among the actions to be taken under the strategy as a part of the strategic objective. Other actions can address administrative and regulatory constraints facing new firms.

Strategic Objective 3: Connect firms to international opportunities to compete globally

International markets have the potential to significantly increase demand for Iranian auto parts and to produce new opportunities for the sector's development. Over the longer term, the sector can be reoriented towards exporting through actions on improving market information promotion, particularly for smaller firms with limited individual capacities for these types of activities. Quality management and other technical factors affecting trade, including competition in domestic markets, will also be addressed.

Figure 1: Sector strategy theory of change

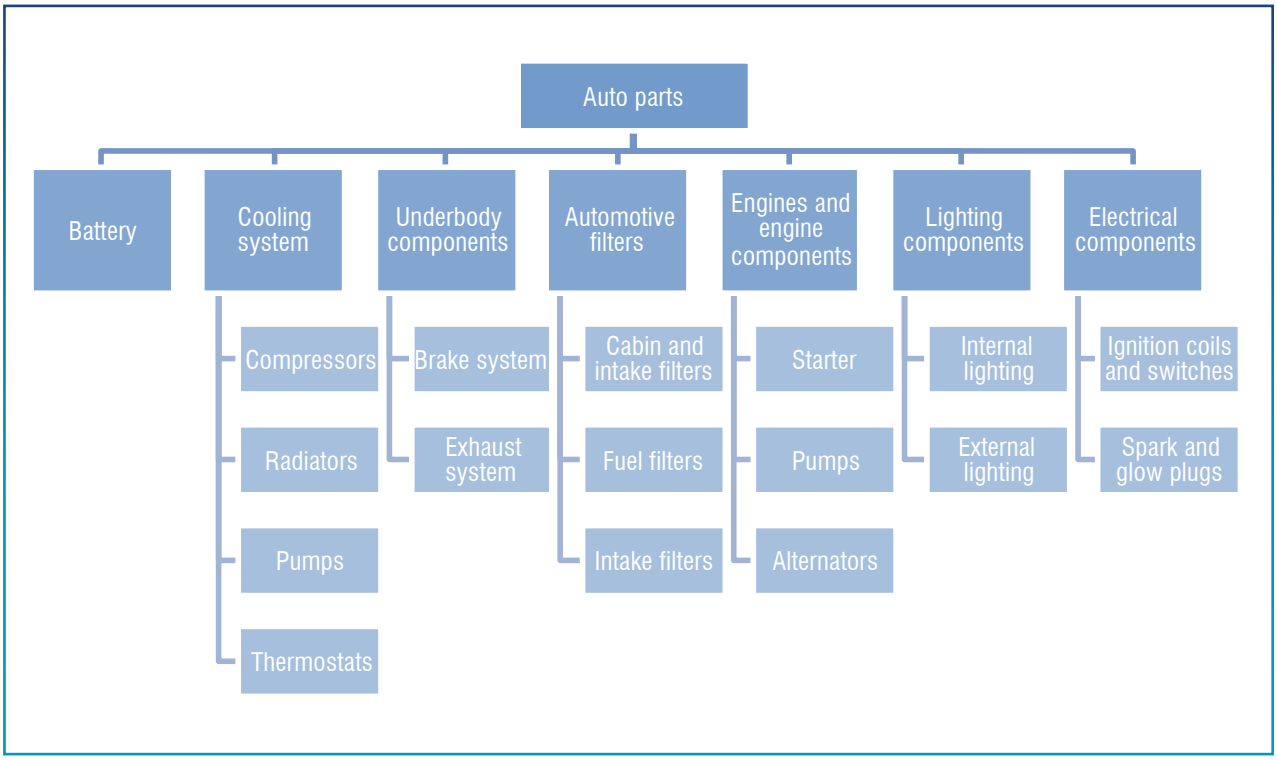


GLOBAL TRENDS IN SUPPLY AND DEMAND

- What major trends are shaping the global supply of and demand in the automotive sector, and for auto parts in particular?
- What are the most important external factors for the strategy to navigate in order to best position the Iranian sector for success in international markets?

Iran's auto parts sector covers the manufacture of batteries, cooling systems (including compressors, radiators, pumps and thermostats), underbody components (brake and exhaust system components), automotive filters (including cabin, fuel, intake and oil filters), engine components (including the starter, pumps, completed engines and alternators), lighting components (for internal and external lighting) and electrical components (including ignition coils and switches, and spark and glow plugs) (Figure 2).

Figure 2: Auto parts product map



Auto parts manufacturing forms a key element of the larger automotive sector, a labour-and capital-intensive sector. Globally, the automotive sector is concentrated in a few countries and firms. Much of global supply is shaped by leading firms in the sector. Combined, the world's 10 largest manufacturers –concentrated in East Asia, Europe and the United States of America– accounted for approximately two-thirds of global production in 2017 (Table 1).

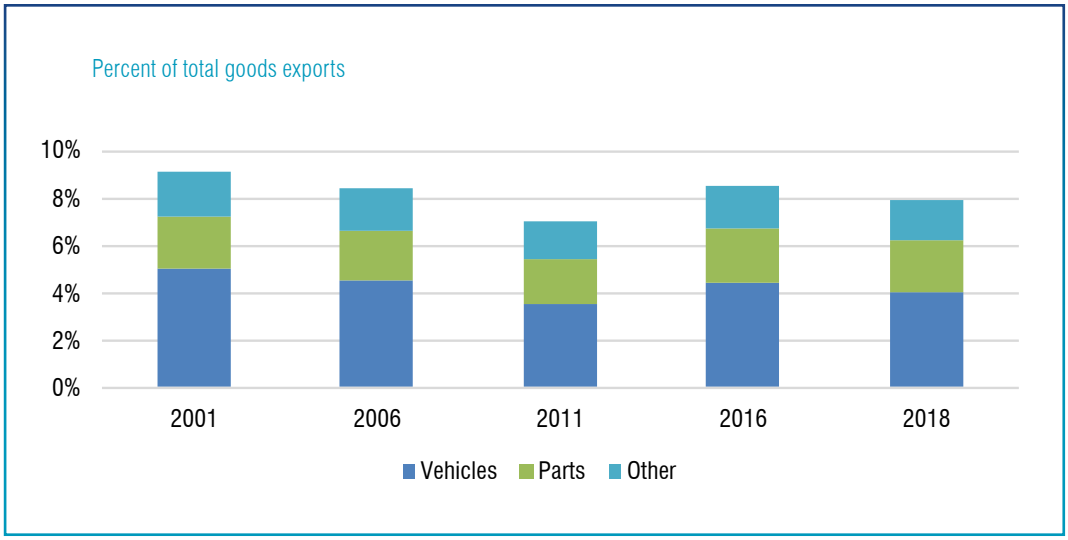
Table 1: Largest vehicle manufacturers (2017)

Rank	Firm	Country	Vehicles manufactured	Share of global production (%)
1	Toyota	Japan	10 466 051	10.8%
2	Volkswagen	Germany	10 382 334	10.7%
3	Hyundai	South Korea	7 218 391	8.3%
4	General Motors	United States	6 856 880	8.2%
5	Ford	United States	6 386 818	6.8%
6	Nissan	Japan	5 769 277	5.9%
7	Honda	Japan	5 235 842	5.3%
8	Fiat	Italy/United States	4 600 847	4.9%
9	Renault	France	4 153 589	3.6%
10	PSA	France	3 649 742	3.3%

Source: Organisation Internationale des Constructeurs d'Automobiles.

While global exports of passenger vehicles fell as a share of total goods exports over 2001–18, from 5% to 4%, the shares of parts (2.2% and 2.1%) and other automotive products (1.8% and 1.8%) have stayed more or less stable (Figure 3). The biggest parts exporters are the Federal Republic of Germany (16.2% of global exports), the United States (11%), and Japan (8.6%), though the People's Republic of China has seen the largest increase in exports as a share of the world total, with a 7.4 percentage point increase over 2001–18. It has become a large exporter of wheels, brakes, and vehicle bodies in particular, much of which is destined for markets in the United States, Japan and the United Mexican States (Mexico).

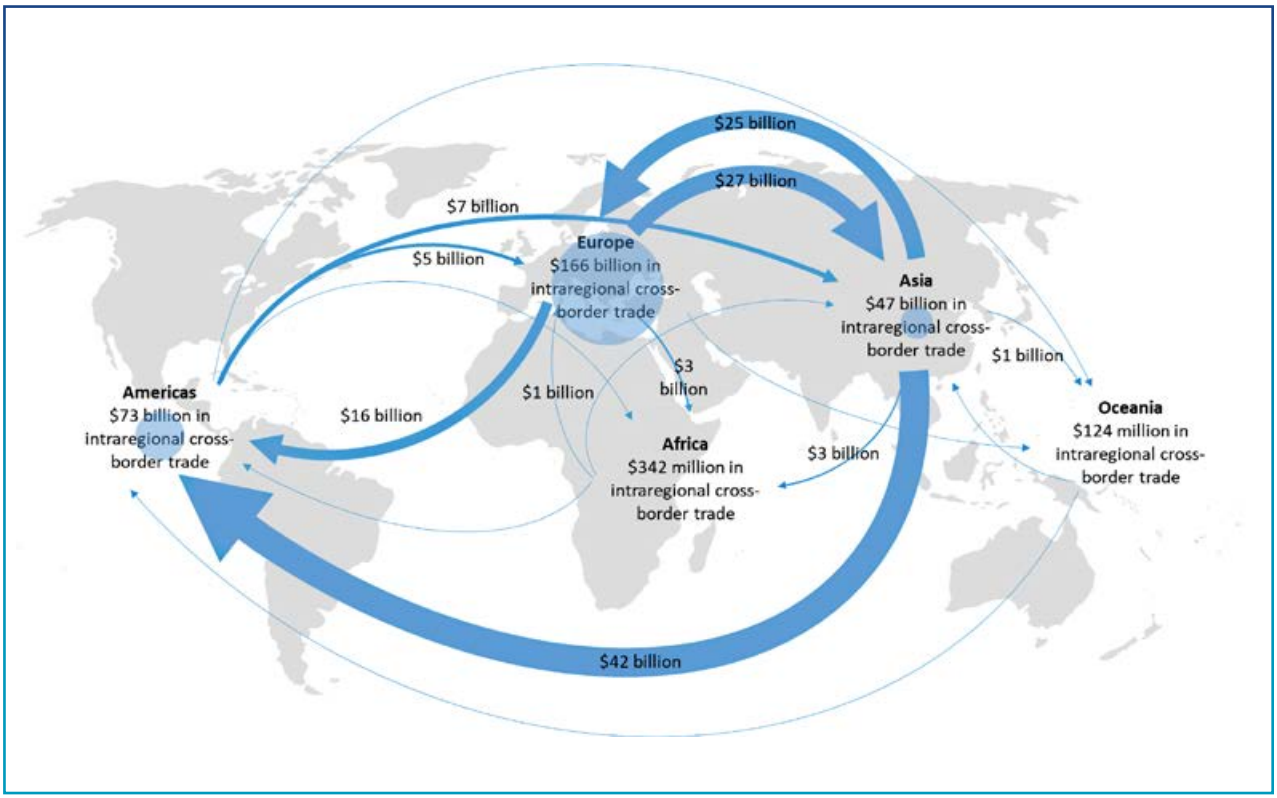
Figure 3: Global automotive exports (2001–18)



Source: ITC, Trade Map.

Most of global trade in auto parts is intraregional. In 2018, only $133.3 billion in trade was between regions, or 31.7% of global cross-border trade (Figure 4). Intraregional trade is particularly important in Europe, where it accounts for 83.8% of imports, though it is also important in Asia and the Americas, where it accounts for 57.8% and 55.6% respectively.

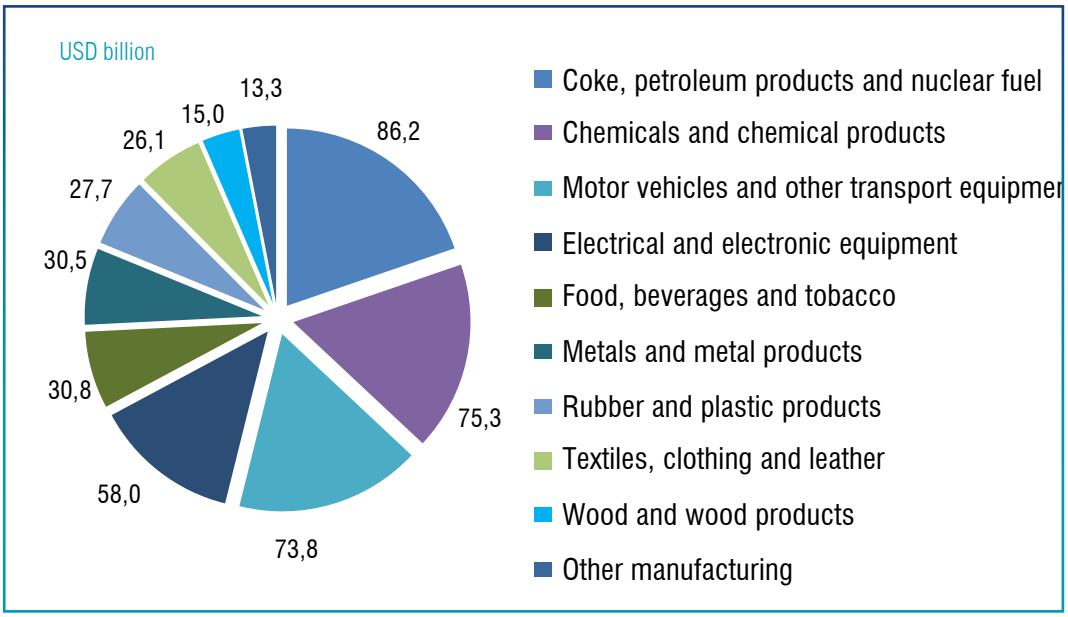
Figure 4: Global interregional and intraregional trade in auto parts (2018)



Source: ITC, Trade Map.

The automotive sector is also a major contributor to global investment. In 2018, there was $73.8 billion in announced greenfield foreign direct investment (FDI) projects in the production of motor vehicles and other transport equipment, accounting for 15.8% of the total value in manufacturing activities around the world (Figure 5). While this share has declined somewhat from a recent peak of 26.7% in 2012, it is nevertheless the third-biggest sector in terms of attracting FDI.

Figure 5: Value of announced greenfield FDI projects in manufacturing



Source: ITC, Trade Map.

Global trends and those in major markets are affecting demand for parts and providing opportunities for innovation by component manufacturers. Parts manufacturers in particular will need to adapt to different ways of working with their primary clients – vehicle manufacturers – as well as in supplying the aftermarket, in this context. At the same time, price competitiveness and quality remain fundamental to international competitiveness.

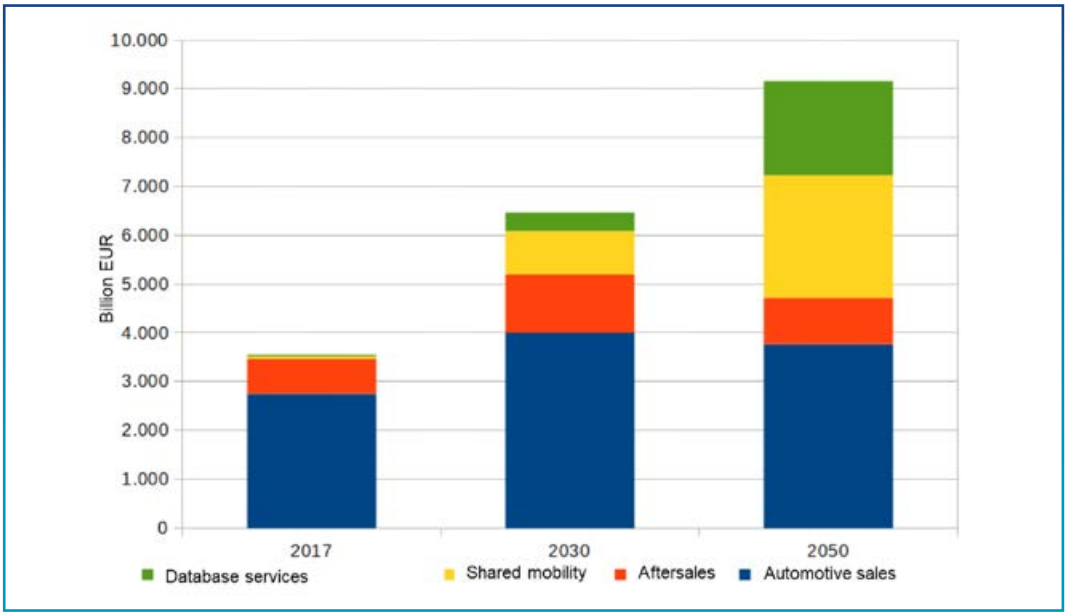
Higher capital investment in new and advanced technologies across the automotive sector is leading to increasing demand for high-density batteries, increasing adoption of hybrid power trains, rising advanced pump demand for mid-sized segments, and increasing automotive production and vehicle parts. Some industry analysts also expect the automotive industry to shift towards increasingly modular systems.

While electric vehicles represent a growing market share, they still account for a small share of global vehicle sales. Internal combustion engines will not be replaced anytime soon, as electric vehicles are held back by the lack of considerable economies of scale in battery production, environmental considerations in manufacturing and sourcing, and their reliance on political support. That said, producers choosing where to invest continue to push electric vehicle manufacturing forward. Automotive sector manufacturers will thus need to decide on their medium- and long-term strategies with due consideration of these market factors, as well as of their knowledge base, technical capacities and potential to invest in new technologies. Quality is particularly important to electric vehicle producers, and high levels of technology use and knowledge are required.

Regulatory factors are also motivating product innovation. Stringent emission norms on automobile manufacturers, for example, is motivating the design of lightweight and energy efficient vehicle parts. At the same time, higher import taxes and other barriers to market access are affecting international supply chains.

On the demand side, global trends are forcing auto parts manufacturers and other actors in the automotive sector to adapt. Emerging markets are expected to be a major source of growth. Saturated and slower-growing markets in the advanced economies are already declining in importance; the share of motor vehicles sold in high-income economies has declined from 70% in 2005 to 50.6% in 2018. In addition, trends in vehicle use are changing, including through increased vehicle sharing and use of alternative mobility programmes. The traditional automotive market is expected to account for a shrinking share of the global market in the coming decades as digital services and shared mobility solutions grow in total value (Figure 6).

Figure 6: Projected sales in global automotive market (2017–50)



Source: Statista.

In light of this complexity, Iran may have to choose a focus for the industry. The newness of electric vehicles means that there are fewer firms and country sectors that have established competitive advantages, so barriers to competition may be lower in some senses. On the other hand, investment in producing for electric vehicles is particularly uncertain, as current battery technologies may soon be replaced by new technologies. There may be fewer risks in investing in improving price competitiveness in established technologies, and investments in electric vehicle production by many traditional global automotive suppliers will create additional competition in future.

In addition to these longer-term global trends, the sector is also being impacted, like many others, by the consequences of the COVID-19 pandemic. Global automotive supply chains were disrupted by lockdown measures and factory closures imposed in many countries to slow the spread of the virus. Lockdowns have also constrained demand for vehicles and parts, and the possibility of a prolonged period of slow economic growth would further reduce demand. Early data showed the extent of these declines in major markets; in February, light vehicle sales in China fell by 79.1% compared with the previous year. As the disease spread, light vehicle sales in Europe fell by 44% year-over-year (YOY) in March, and new passenger car and light truck sales in the United States fell by 47.9% YOY in April.

Changing patterns of demand and production in the global auto parts and automotive sectors mean that Iranian producers will need to adapt in order to succeed in international markets. At the same time, it is clear that there are many opportunities for auto parts manufacturers to supply new sources of demand, and Iranian firms risk being left behind in future if they are not able to adapt. The strategy will need to balance these considerations in charting the way forward for the sector.

THE POTENTIAL TO EXPAND EXPORTING AND PREPARE FOR A MORE COMPETITIVE FUTURE

- What factors have driven the sector's growth and should be leveraged in the strategy?
- How has the auto parts sector contributed to Iran's economic growth and export diversification?
- What potential is there in further developing auto parts exports?

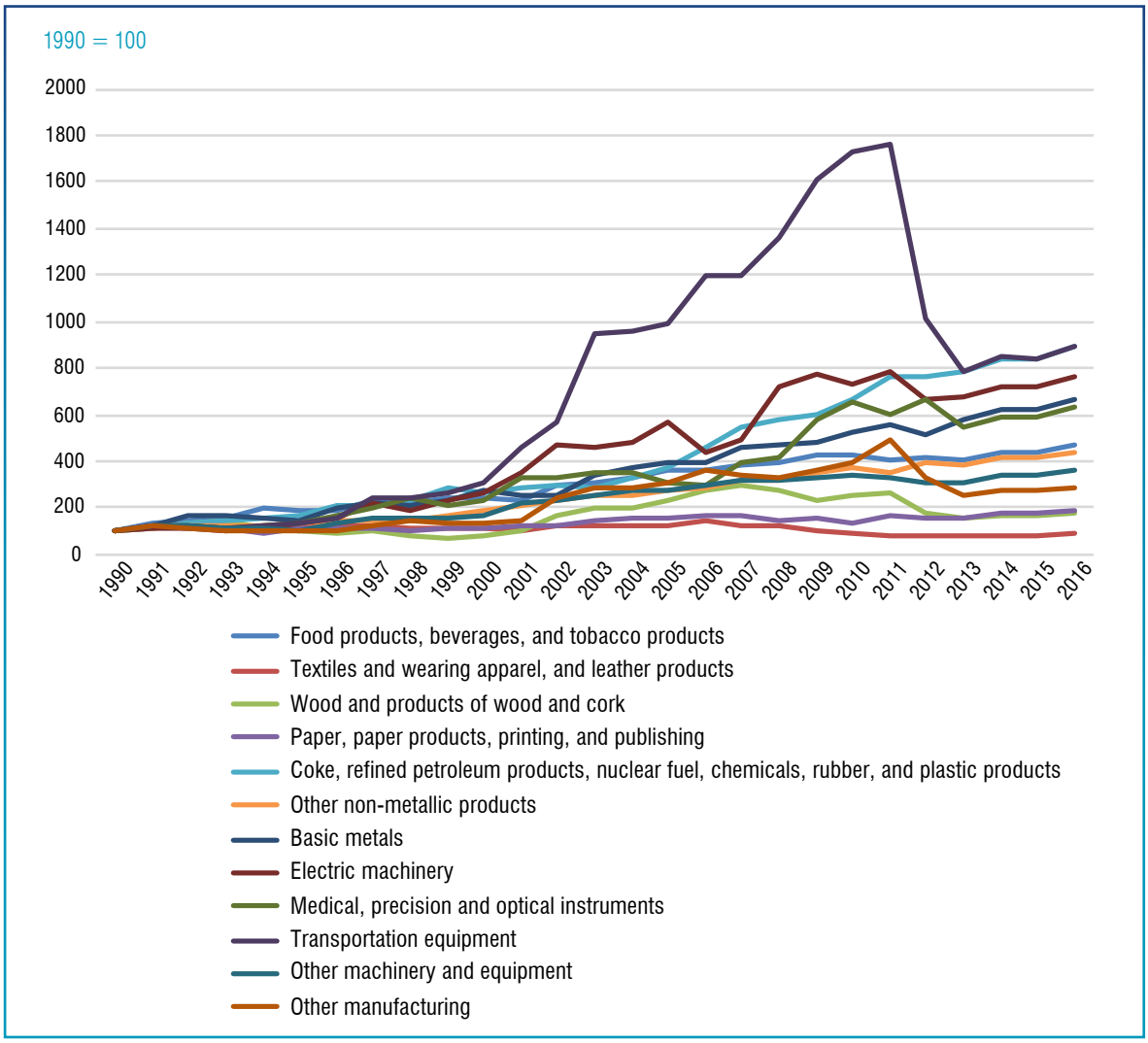
Domestic production capacities, domestic demand and other strengths have supported the evolution of the auto parts sector in Iran. It is a significant source of value added and employment, though its exports, both direct and indirect, have been modest. It has the dynamic potential to contribute to innovation and diversification through the development of manufacturing capabilities and cross-linkages with other industries.

Competitive advantages have driven the sector's growth

Auto parts manufacturing plays a key role in one of Iran's most important manufacturing sectors

In addition to its indirect contributions to building Iran's industrial capacities, auto parts production, vehicle manufacturing and related activities have played a major role in driving the growth of manufacturing in Iran. Despite the dramatic decline in 2012 (coinciding with an economic downturn brought on by tightened international sanctions), at IRR 87 trillion in 2016, value added in transportation equipment manufacturing remained higher relative to its 1990 level than any other manufacturing sector (Figure 7). It is also the largest manufacturing sector, accounting for 15.4% of total value added in manufacturing.

Figure 7: Value added in manufacturing sectors (1990–2016)



Source: Asian Productivity Organization.

A number of factors have driven the performance and potential of the auto parts sector

The sector's performance has been driven by its strengths in terms of natural assets and exogenous factors, sector organization, and human and technology factors:

- The large domestic automotive sector and domestic demand;
- Proximity to important export markets;
- Established and growing capacity in auto parts production;
- Supportive government policy;
- High levels of human capital, with strong skills in sciences, technology, and engineering in particular (Table 2).

These factors also underpin the potential for further growth in the auto parts sector, if they can be properly leveraged.

Table 2: Strengths and competitive advantages in auto parts production

Natural assets and exogenous factors	Sector organization	Human and technology factors
• Established domestic vehicle manufacturing sector and domestic demand • Proximity to important export markets for vehicles and parts	• Established and growing industrial capacity in parts production • Supportive government policy and planning	• Strong skills in sciences, technology and engineering

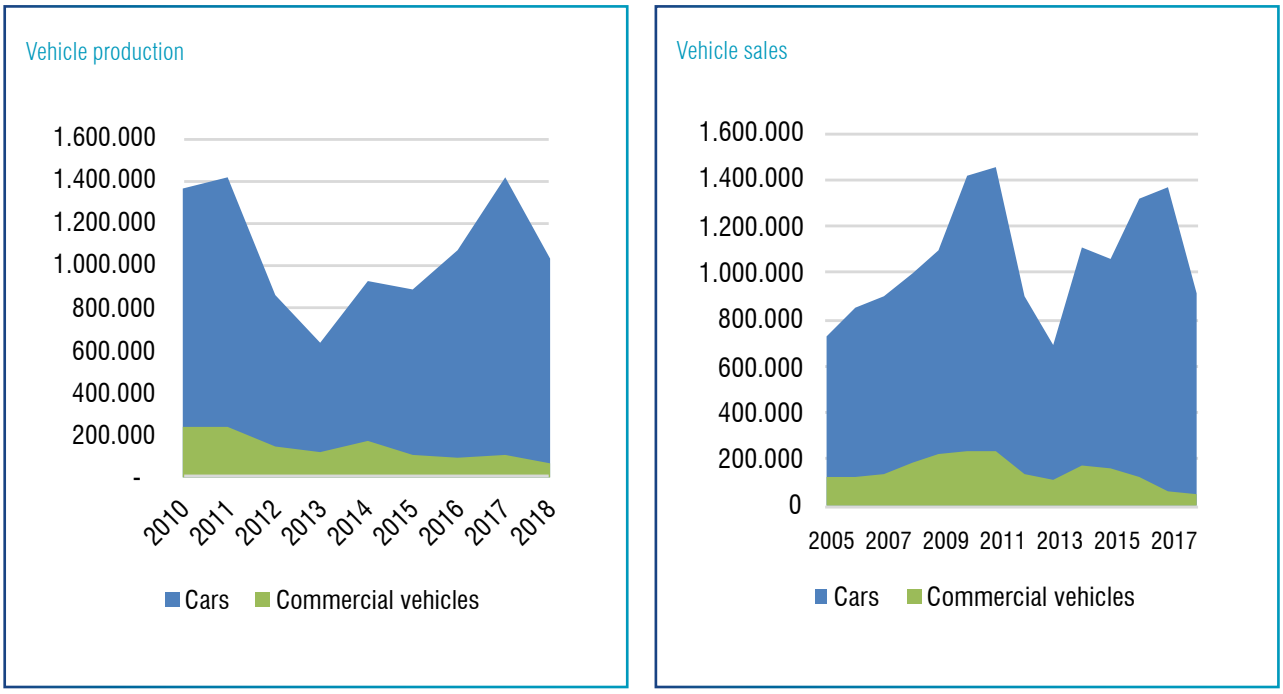
The large motor vehicle sector is a major client for domestic auto parts firms

‘External markets can’t be taken for granted. It’s the domestic market that has allowed parts producers to survive and thrive.’

By far, most of the output from the auto parts sector remains in the domestic market, destined for either vehicle assembly, or for retail sales and repair services. The large domestic automotive sector and high levels of final demand in the country have helped to support growth and foster enhanced competitiveness through economies of scale in design and production as well as through learning effects.

Iran is a large producer of vehicles. In 2018, vehicle production totalled 1.1 million units, making it the world’s 18th largest producer (Figure 8). While many vehicles are produced for export, the domestic market remains the most important source of demand. In 2018, vehicle sales totalled 959,628 (912,563 passenger cars and 47,065 commercial vehicles). While total sales fell from 1,429,172 to 959,628 in 2017–18, they have remained above the recent low of 804,750 in 2012, when tougher international sanctions placed serious constraints on foreign trade and led to a 7.4% decline in gross domestic product (GDP) growth.

Figure 8: Vehicle production and sales (2005–18)



Source: Organisation Internationale des Constructeurs d’Automobiles.

Iran is located near important export markets for the automotive sector

In addition to a strong domestic market, Iran benefits from its proximity to important export markets. Among Iran's top 10 automotive export destinations, the Republic of Iraq, the Republic of Azerbaijan, the United Arab Emirates, and Turkmenistan are within the 10 countries closest to Iran, weighted by population distribution. Iran's share of these markets has additional room to grow, however, and rising demand can also be anticipated, as many of these economies expect to see moderately strong growth in the future.

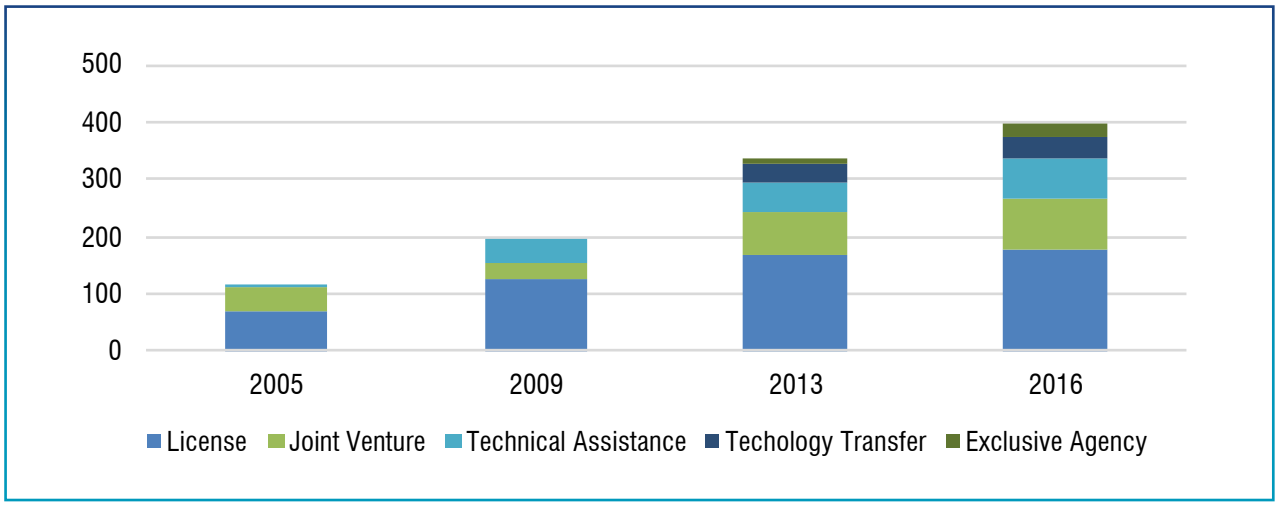
There are considerable capacities for expanding and upgrading production in the sector

> 'There are world-class producers here. With the right support and opportunities, they would, of course, succeed in export markets as well.'

In addition to the significant capacities of the Iranian automotive sector generally, auto parts manufacturers have proven to be capable of growth and improvements in the sophistication of production. Quality management systems are being improved. A growing number of firms are achieving international standards; by 2015, 705 automotive supply firms were ISO/TS 16949 certified, and 396 firms were ISO 9001/2000 certified. New kinds of auto parts are being produced through the use of new technologies; for example, Iran's growing nanotechnology sector is providing new materials for vehicles such as anti-stain dashboards, hydrophobic glass planes and anti-scratch paint.

Manufacturers are also increasingly cooperating with international partners, through licensing, joint ventures, technical assistance, technology transfer and exclusive agency (Figure 9). While the use of licensing arrangements has increased, they are declining as a share of international cooperation arrangements, implying an increasing sophistication of local producers.

Figure 9: International cooperation in auto parts production (2009–15)



Source: Iranian Auto Parts Manufacturers Association (IAPMA).

Recognizing its potential, government policy is targeting a larger and more competitive automotive sector

The strength and potential of Iran's auto parts sector, as well as its importance to the development of competitive manufacturing more generally, has been recognized in its prominence in government planning and policy. This attention can help support the sector's longer-term growth while also providing assistance to cope with short-term challenges and disruptions.

State support has played a major role in the automotive sector's development. The government has targeted the further development and improvement of capacities in the auto sector, from parts to assembly, including:

- Reducing state involvement and attracting (foreign) private investment;
- Improved product quality and development of new technologies;
- Involvement in joint ventures with foreign firms;
- Developing training and employment opportunities in the sector;
- Improved competitiveness in regional and global markets.

The Vision 2025 plan called for an automotive industry that ranks number one in the region, 5th in Asia and 11th in the world, with annual production of 3 million units. The Ministry of Industry, Mine and Trade outlined nine approaches to be taken towards achieving these goals (Table 3).

Financial support has been provided to help firms manage the challenges posed by sanctions and to continue the sector's longer-term development, including by emphasizing the localization of production to replace imports. An agreement signed in February 2019 between automotive firms, the government and the Central Bank of Iran (CBI) made available extensive loans to local parts manufacturers, though there were delays in its delivery due to subsequent disagreements on the repayment mechanism. Another agreement in July 2019 extended support to small-and medium-sized parts makers to promote the growth of the domestic industry.

Table 3: Planned approaches to be taken to achieve Vision 2025 automotive targets

Approach	Elements
Increasing manufacturing power	• Phasing out outdated auto manufacturing techniques • Establishing design centres in parts manufacturing and assembly
Developing investment	• Attracting direct investment, and joint ventures with parts makers and automakers • Developing manufacturing capabilities for main input materials
Increasing technology use	• Supporting research and development • Developing new electronics technologies
Developing inter-business collaboration	• Consolidating leading auto firms to improve international competitiveness
Expanding international collaboration	• Pursuing join ventures with major international firms • Improving trade predictions for managing foreign contracts
Diversifying financing methods	• Offering purchase credits for investment in new equipment • Establishing a sector support fund
Managing vehicle and parts import values	• Setting tariffs for the medium term to increase transparency and predictability • Managing the import of used cars and parts
Supporting domestic brand customers	• Monitoring manufacturer and importer quality, service and performance
Reforming consumption	• Encouraging the purchase of domestic brands, as well as the use of smaller and hybrid vehicles

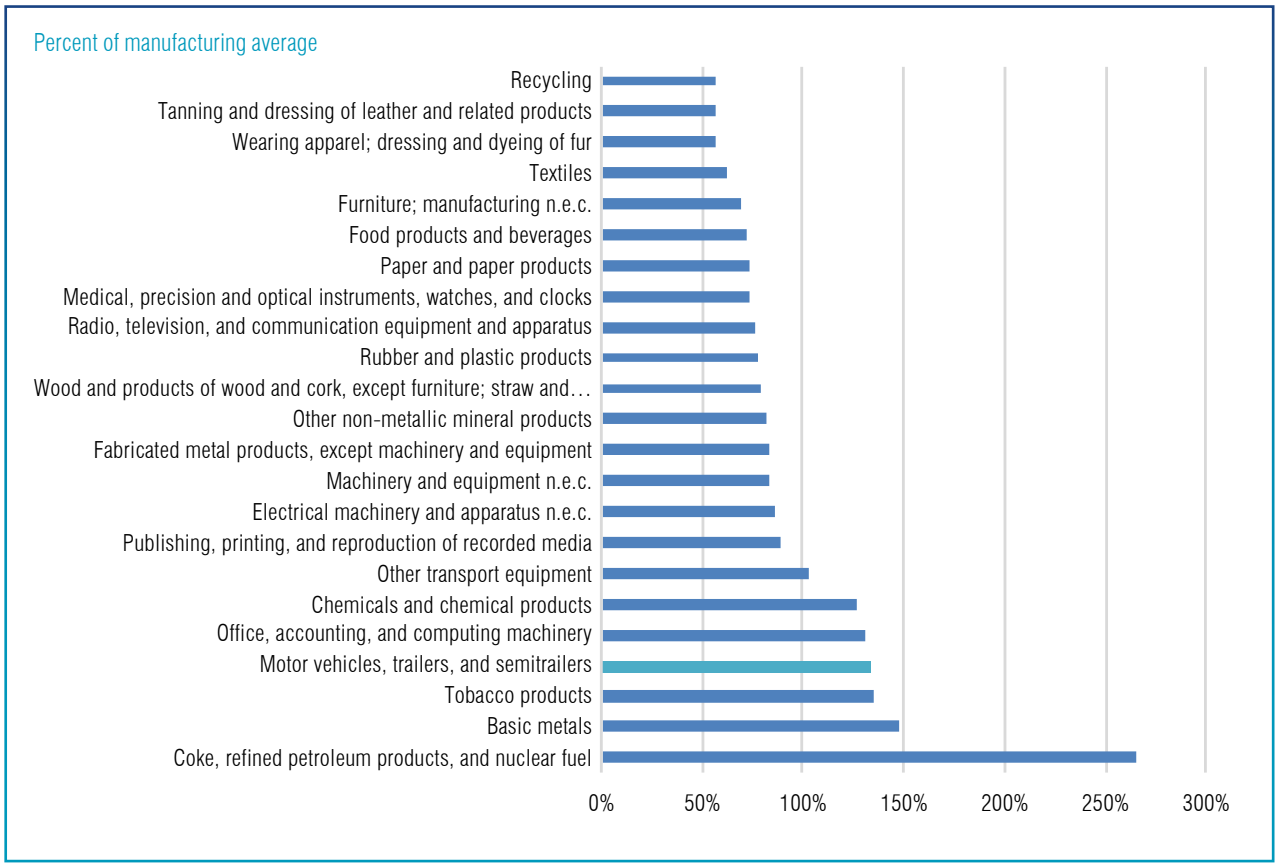
Source: Ministry of Industry, Mine and Trade.

The automotive sector benefits from its access to a pool of skilled labour

Human capital is a considerable source of competitive advantage for Iran's auto parts sector. Iran's excellent technical universities and existing technology parks have built a strong and highly skilled labour force. This improves productivity, facilitates the adoption of new technologies and provides a basis for innovative activities. Indeed, wages in the wider automotive manufacturing sector tend to be higher than in many other aspects of Iranian manufacturing. Compensation per worker in the manufacture of motor vehicles, trailers and semitrailers was 133.3% of the manufacturing average in 2014/15 (Figure 10).

In addition, the further growth and development of the sector will benefit from access to skilled labour in the country. In 2001/02 and 2015/16, the share of the employed population working as plant and machine operators, assemblers and drivers increased from 9.7% to 12.8%. Almost one-third of tertiary education graduates in 2016 specialized in engineering, manufacturing and construction – more than in any other field.

Figure 10: Compensation per worker in manufacturing sectors (2014/15)



Source: Statistical Center of Iran.

Auto parts manufacturing plays a key role in Iranian manufacturing

Direct and indirect exports of auto parts have made a modest contribution to Iran's total trade

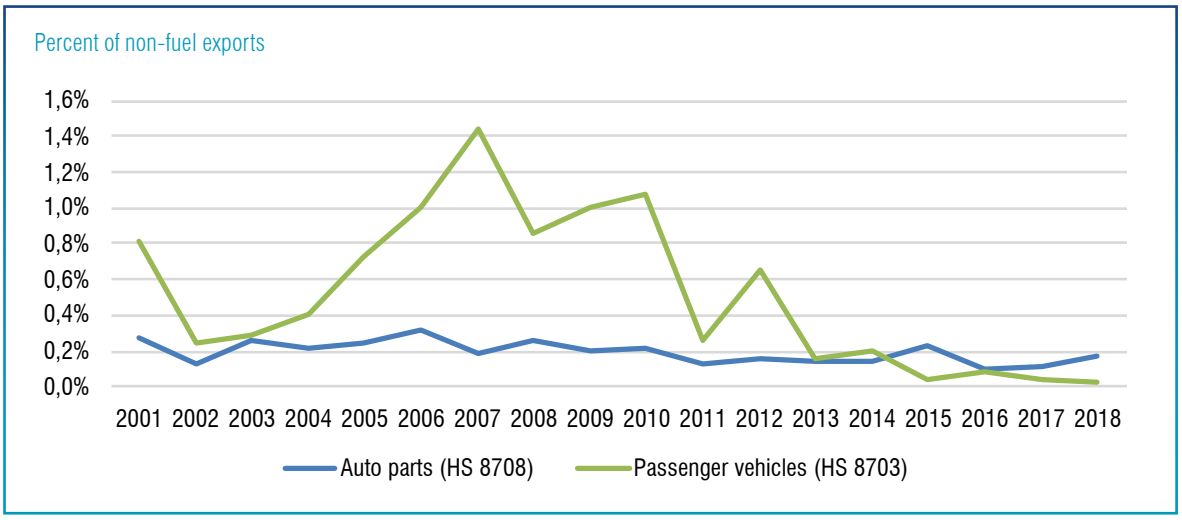
‘Whether you look at its contribution to output, employment or investment, the auto sector is central to manufacturing.’

Exports of auto parts were worth $79.1 million in 2018, representing just 0.2% of Iran's non-fuel exports (Figure 11). Most of these were destined for either Iraq (33.3% of total exports) or the Republic of Italy (31.4% of total exports).

Of course, auto parts are also exported indirectly, primarily as components in finished vehicles. Exports of passenger vehicles were worth just $9.8 million in 2018, with exports overwhelmingly destined for Iraq (87.4%). As a share of total non-fuel exports, passenger vehicles represented 0.02%, a significant decline from a recent high of 1.4% in 2007. The boom in the late 2000s was mainly driven by exports to the Republic of Turkey, the Syrian Arab Republic and the Russian Federation. Together, these countries accounted for 84.2% of passenger vehicle exports in 2007. As these importers declined in importance due to external factors and reduced demand as a result of their faltering growth, Iraq grew as a destination market, though trade waned in absolute terms.

All other automotive exports were valued at $159.5 million in 2018, or 0.3% of non-fuel exports. This total was mostly comprised of bodies (51.1%), tractors 23.5%) and trailers (14.7%).

Figure 11: Auto parts and passenger vehicle exports (2001–18)



Note: Non-fuel export total excludes the value of exports from HS 27 (mineral fuels, mineral oils, and products of their distillation; bituminous substances; and mineral waxes).
Source: ITC, Trade Map.

A dynamic auto parts sector would benefit manufacturing and other areas of the economy

There is the potential for job creation and firm growth in a more competitive sector

‘The skills or the potential to develop them are there – growth would mean new jobs.’

The further growth of the auto parts sector through realizing its full export potential would create additional domestic value added and generate employment. Jobs in the sector tend to be well paid. Although value added per worker in motor vehicle manufacturing and in the manufacture of other transport equipment is lower than that of the manufacturing average (by 5.5% and 31.9% respectively in 2014/15, the latest year with available data), workers in these sectors receive greater total compensation than the manufacturing average (by 33.3% and 2.8% respectively).

In addition, the strengthening of the sector can contribute to the strengthening of productive clusters in automotive sectors and manufacturing more generally. Iran is home to 1,199 auto parts manufacturers, most of which (59.9%) are located in Tehran and Southern Alborz Provinces, though they are spread around rest of the country as well (Table 4).

Table 4: Number of auto parts manufacturers, by region

Region	Number
Tehran and Southern Alborz Provinces	718
North-east Provinces (Greater Khorasan)	125
North-west Provinces	112
Central Provinces	91
Northern Alborz Provinces	59

Region	Number
West Provinces	48
South-east Provinces	46
Total	1 199

Source: Iran Auto Parts Manufacturers Association.

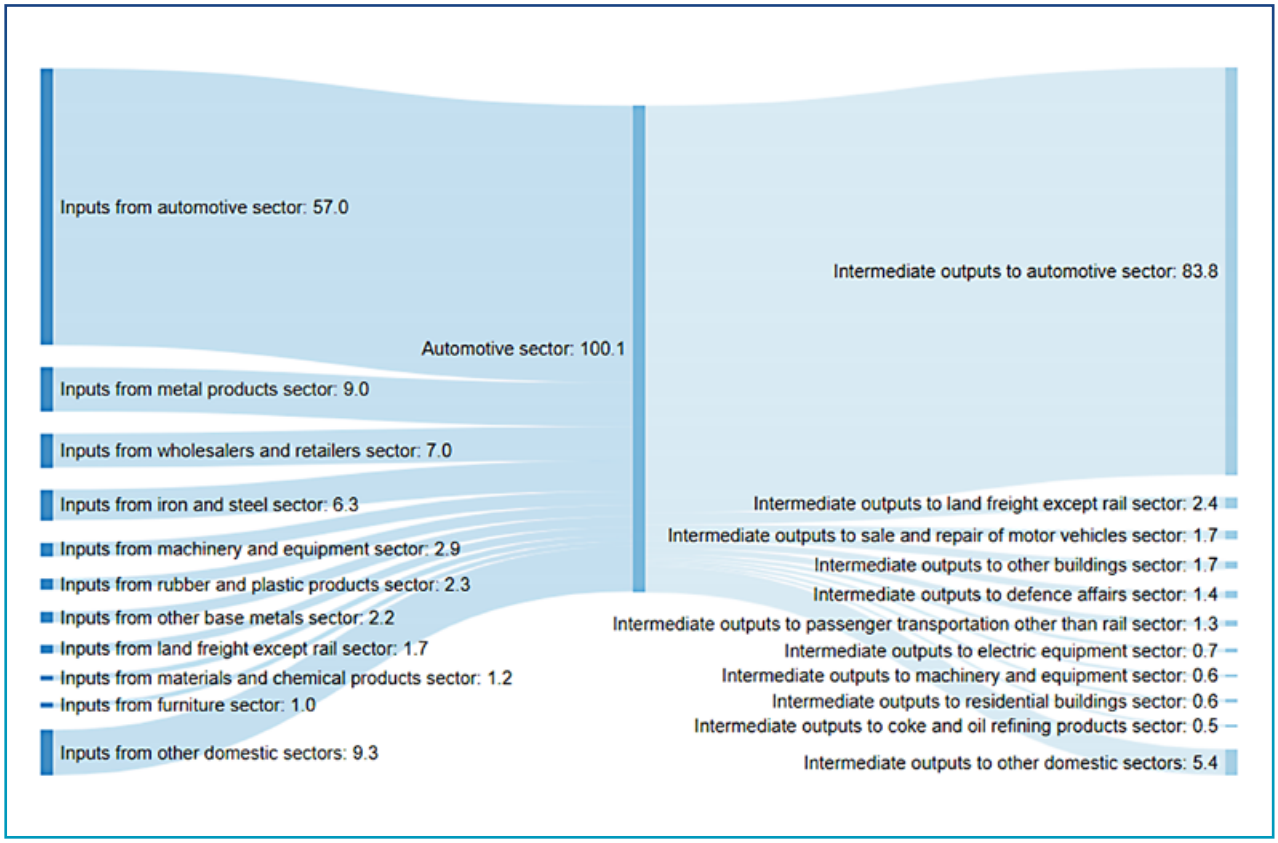
An efficient auto parts sector has the potential to drive broader improvements in manufacturing

The auto parts sector and broader automotive sector in Iran has the potential to leverage its size and connections to the rest of the economy to encourage broader growth in other sectors through the strengthening of its exporting.

In addition to their contributions to value added and employment, automotive sectors are considerable in their contributions to investment. As a share of total investment in manufacturing, the manufacture of motor vehicles and other transport equipment doubled from 1.5% in 1996/97 to 3% in 2015/16.

The sector's proximity to other activity may help to foster positive productivity spillovers. While most inputs of the automotive sector (including parts and assembly) are, not surprisingly, sourced from other participants in the sector, it also has considerable linkages with other areas of the economy (Figure 12). In total, 42.9% of domestically sourced inputs come from other sectors, such as metal produces, wholesalers and retailers, and iron and steel. Most intermediate outputs also remain in the sector, though they are also used in land freight, except rail, motor vehicle sale and repair, and other buildings.

Figure 12: Automotive sector domestic intermediate inputs and outputs (2011)



Note: Total value of domestically sourced inputs is not equal to the total value of intermediate outputs used domestically, due to imports, exports and outputs used by final consumers, among other discrepancies.

Iran's auto parts sector has grown alongside vehicle manufacturing, benefitting from this market and supportive policies and skills, though its contribution to exporting has been limited. Expanding the sector through trade will, therefore, require this strategy to identify opportunities for building on these strengths.

CURRENT CONSTRAINTS TO INTERNATIONAL COMPETITIVENESS

Which malleable constraints are most important for the strategy to address, due to their effects in holding back the potential of the Iranian auto parts sector?

Despite the expected benefits, the further development of the Iranian auto parts sector through improved competitiveness and exporting has been constrained by a number of domestic factors in addition to the external challenges faced. Fundamentally, these issues arise from constraints on the sector's capacities to compete in the present, connect through accessing and using information and knowledge, and change by adapting to changing conditions and opportunities. Specifically, the Iranian auto parts sector has been held back by slow technological growth, the need to improve the price competitiveness of production, product quality and technology intensiveness, the focus of firms on supplying the domestic market, the lack of sufficient investment, and limited competition and dynamism in the sector (Table 5).

Table 5: Competitiveness constraints

Compete	Connect	Change
• More innovation will be needed to succeed in new markets • Improved price competitiveness needed in face of international competition • The quality of parts will need to improve	• Firms are focused on supplying the domestic market and exports are concentrated in few markets	• Further investment will need to be encouraged • Competition and dynamism in the sector and domestic market are limited

A number of domestic and international actors are involved in the Iranian auto parts value chain (Figure 13). Notable input suppliers and support services in the sector include the suppliers of components and raw material, technology and design inputs, services provided by sector associations and other trade support institutions, and financial services. Parts manufacturers include independent manufacturers largely producing for vehicle manufacturers and repair marts manufacturers largely producing for aftermarket sales, reaching markets through wholesalers and traders. Final customers include automobile manufacturers, dealers, auto repair shops and aftermarket retailers.

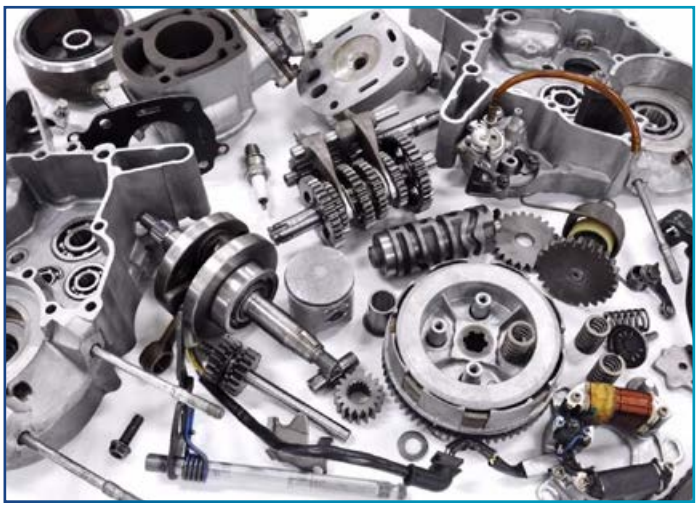
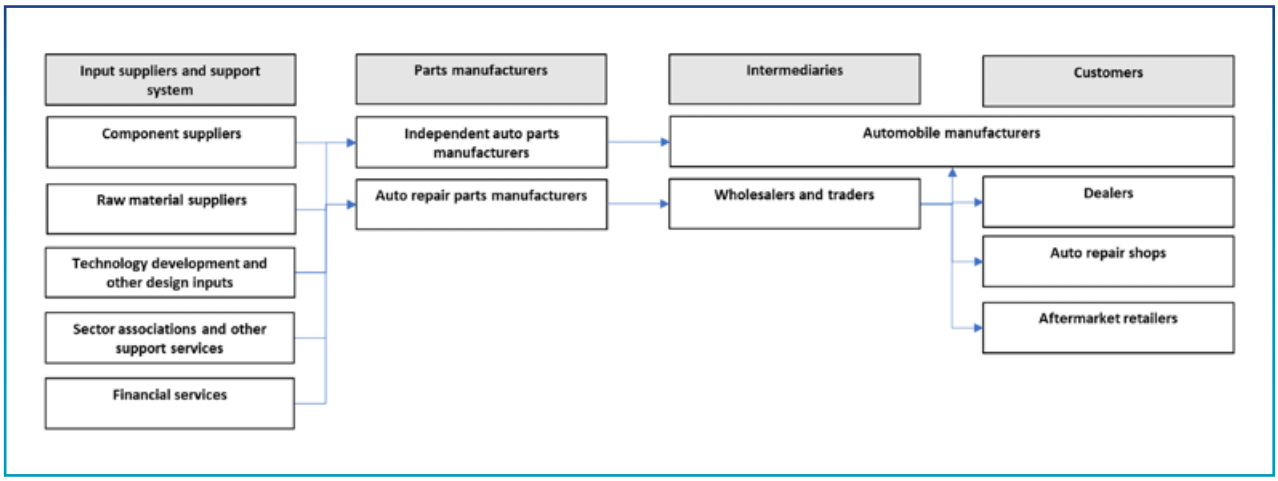


Figure 13: Iran's auto parts value chain



More innovation will be needed to succeed in new markets

Relevant operational objectives:

- 1.2. Incentivize investment in the sector
- 1.3. Foster innovation and technological upgrading

Innovation and upgrading of capacities in producing more technology-intensive products is needed to meet customer demand in a broader range of export markets and to increase the domestic value of production. Iran's direct exports of auto parts are quite concentrated in a few types of products. Auto parts not elsewhere classified,[1] wheels, radiators, clutches, and brakes, Iran's top five auto parts export products, together account for 83.9% of the sector's exports. With slight changes in the composition of the top export products, the share of exports accounted for by the top five product categories has remained high, averaging 91% in 2001–18.

Innovation is limited in Iran's automotive sector, and technology transfer is needed. Relative to GDP, total expenditure on research and development is well below the average of upper-middle income countries, as is the number of researchers for the population. While some progress has been made in the automotive sector, including through the establishment of research and development units by Iran Khodro (IKCO) and Saipa, results have been mixed and much of the sector, particularly the production of auto parts, has made little investment in innovation. Increased technology use at the firm level and the further development of complementary skills among workers in the sector will be needed at the same time.

Additional cooperation within the sector and externally will be needed to drive technological change. Cooperation between the private sector, academia and government can help in leveraging Iranian capacities in innovation to drive change in the sector.

Improved price competitiveness needed in face of international competition

Relevant operational objectives:

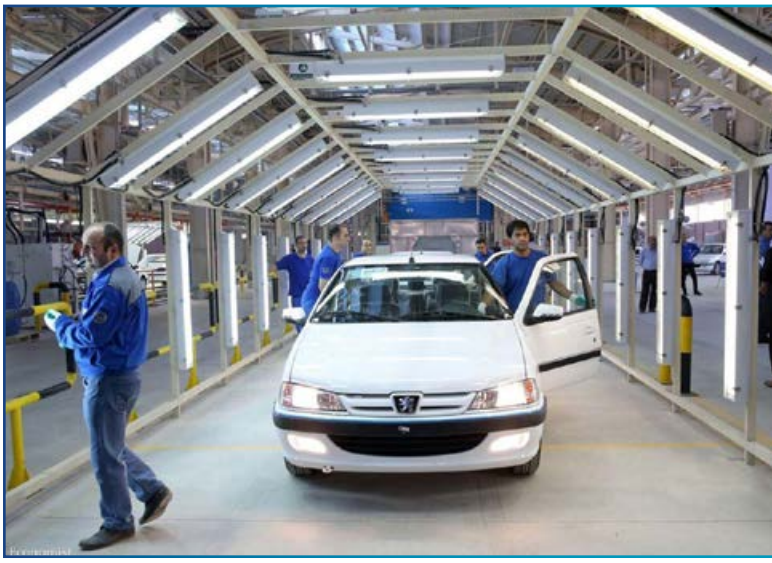
- 1.1. Enhance investment targeting and promotion
- 1.2. Incentivize new investment in the sector
- 3.3. Build quality management capacities

> 'Imports are increasingly competing with and not just complementary to domestic production.'

There is a need for improvements to be made to price competitiveness in the face of low-cost imports and competition in export markets.

Low-cost competition has challenged domestic production, especially in light of limited capacities for regulating quality in the domestic market. Imports of auto parts represented 1.7% of total goods imports in 2018. While Iran has significant capacities in the production of many auto parts, including brake, suspension systems and glass products, key components are also imported, with large values of gearboxes and drive

1.– Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, nes (HS 870899).



axles imported in particular (Table 6). The majority of auto parts imports come from China; in 2018, these accounted for $439 million of $690 million in total imports of auto parts.

Iranian exporters also face increasing competition in even their most important international markets. For example, while exports to Iraq as a share of Iran's total auto parts exports has increased in 2010–18 and the country is now Iran's top export destination, Iran's share of Iraq's import market has decreased from 7.4% to 6.1% over this period. The United Arab Emirates (28.8%), China (25.4%), the Democratic People's Republic of Korea (16.1%) and Turkey (6.6%) are all relatively more important suppliers to the Iraq market.

Enhancing investment and innovation will play an important role in improving the sector's international competitiveness. In addition, new business practices may need to be considered, including outsourcing some low-value and non-core operations, and identifying cheaper input suppliers.

Table 6: Top auto parts product imports (2018)

Product	HS code	Import value (USD million)
Gearboxes	870840	198.6
Drive axles with differential	870850	191.5
Steering wheels, columns and boxes	870894	44.7
Clutches	870893	37.5
Body parts	870829	31.9
Other parts	-	186.2
All auto parts	8708	690.4

Source: ITC, Trade Map.

The quality of parts will need to improve

Relevant operational objectives:

- 3.3. Build quality management capacities

Capacities for improving quality limit the range of products produced domestically, leaving automakers dependent on imports. Quality improvements are also needed to expand exports, by meeting international standards in auto parts (e.g. national-level standards) and vehicles (e.g. Euro 6). Furthermore, there are signs that increased reliance on domestic suppliers by Iranian automakers is leading to a reduction in quality, including through increased competition from lower-quality suppliers, posing a threat to the sustained competitiveness of the parts sector. An update of the production lines based on new technologies is needed in order to stay on course with the increasing demand and to satisfy new and stricter international standards. The improvement of quality, certification and innovation in the auto parts sector has been further complicated by inefficiencies arising from the regulatory environment. There is a need for a regulatory body active in supporting compliance with international standards, as well as protection of intellectual property rights. A lack of transparency in major policy decisions, such as on bans and restrictions, is also a significant discouragement to investment in the development of new products. Relatedly, there has been limited private sector-led cooperation and organization among auto parts producers. The forming of effective consortia – and raising awareness of enhanced cooperation opportunities among firms – would, therefore, be a positive development that will facilitate public–private dialogue on issues facing the sector, though improved knowledge about cooperation and consortia will also be needed.

Table 7: Top auto parts destination markets (2001–18)

Percent of total auto parts exports

Country ranking	2001	2005	2010	2015	2018
First	France (25.8%)	France (21.7%)	Venezuela (24.6%)	Iraq (74.3%)	Iraq (33.3%)
Second	United Arab Emirates (15.2%)	United Arab Emirates (14.6%)	Syrian Arab Republic (21.9%)	United Arab Emirates (5%)	Italy (31.4%)
Third	Russian Federation (8.1%)	Iraq (11.1%)	Iraq (16.3%)	Russian Federation (4.6%)	Azerbaijan (7.7%)
Fourth	Iraq (7.1%)	Turkey (7.5%)	Saudi Arabia (7.8%)	Italy (4.5%)	Syrian Arab Republic (7.3%)
Fifth	Malaysia (6.2%)	Italy (7.4%)	France (5%)	Turkey (2.3%)	Russian Federation (3.2%)
Others	37.6%	37.7%	24.3%	9.3%	17.1%

Source: ITC, Trade Map.

Further investment will need to be encouraged to attract the capital, technology and knowledge needed in auto parts and assembly

Relevant operational objectives:

- 1.1. Enhance investment targeting and promotion

‘Access to finance and investment capital is absolutely among our greatest concerns.’

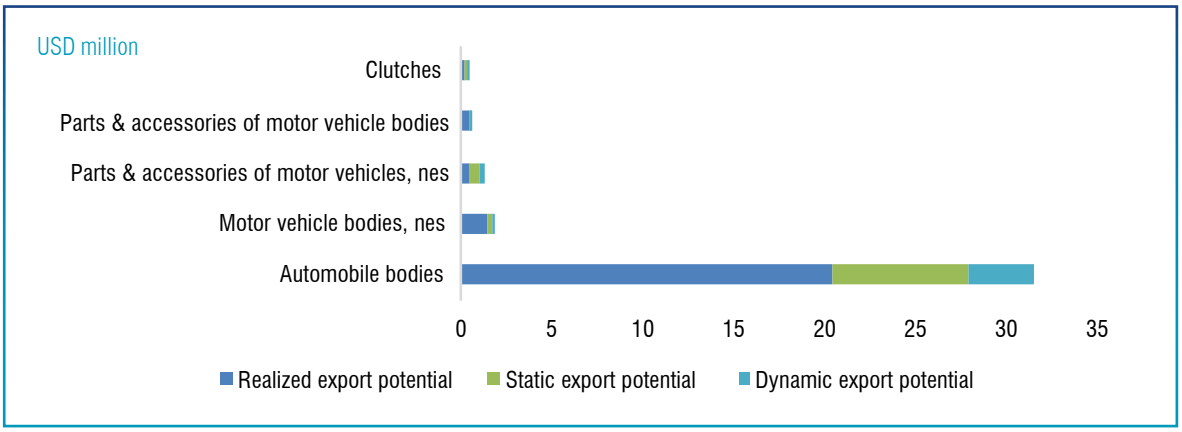
Although the auto parts sector and other automotive manufacturing activities have attracted relatively high levels of investment, which have allowed it to grow to its current size and capabilities, further investment will be needed to realize its full potential in serving both domestic and foreign customers.

Underinvestment has exacerbated challenges in accessing capital, technology and knowledge for the sector’s development, as well as the discipline of private sector involvement. In the short term, there have been limited capacities among local producers to replace imports. This was demonstrated in August 2019 with the announcement that the Ministry of Defence and Armed Forces Logistics had signed a contract with automakers to supply 470 previously imported electronic parts from its industries. Given the close relationships between auto parts suppliers and vehicle manufacturers, the investment prospects and potential to benefit from investment of the two are closely linked.

According to ITC’s export potential assessment, the total potential of automobile body exports is $31 million, that of motor vehicle bodies, nes is $1.7 million; and that of parts and accessories, nes is $1.3 million (Figure 14). However, most of this potential has already been realized, with most unrealized potential due to static constraints such as trade frictions. Furthermore, the top 100 products presenting export diversification opportunities for Iran did not include products from the automotive sector. Additional growth and development of the sector is, therefore, needed for exporting to see significant expansion.

While the sector is fundamentally attractive to investors, foreign investment and joint ventures have been withdrawn and scaled back since the re-imposition of sanctions. Notably, PSA Peugeot Citroën and Groupe Renault, two French carmakers, pulled out their investments in assembly plants in 2018. In addition to the effects of sanctions, foreign investors may be put off by macroeconomic and general business environment factors, as well as barriers to imports.

Figure 14: Auto parts export potential



Source: ITC.

Competition and dynamism in the sector and domestic market are limited

Relevant operational objectives:

- 2.1. Address barriers to firm entry and growth
- 2.2. Facilitate access to finance for new and smaller firms

‘Smaller firms are often left out of the discussion. Their capacities are too limited and they have a smaller influence on the sector’s development.’

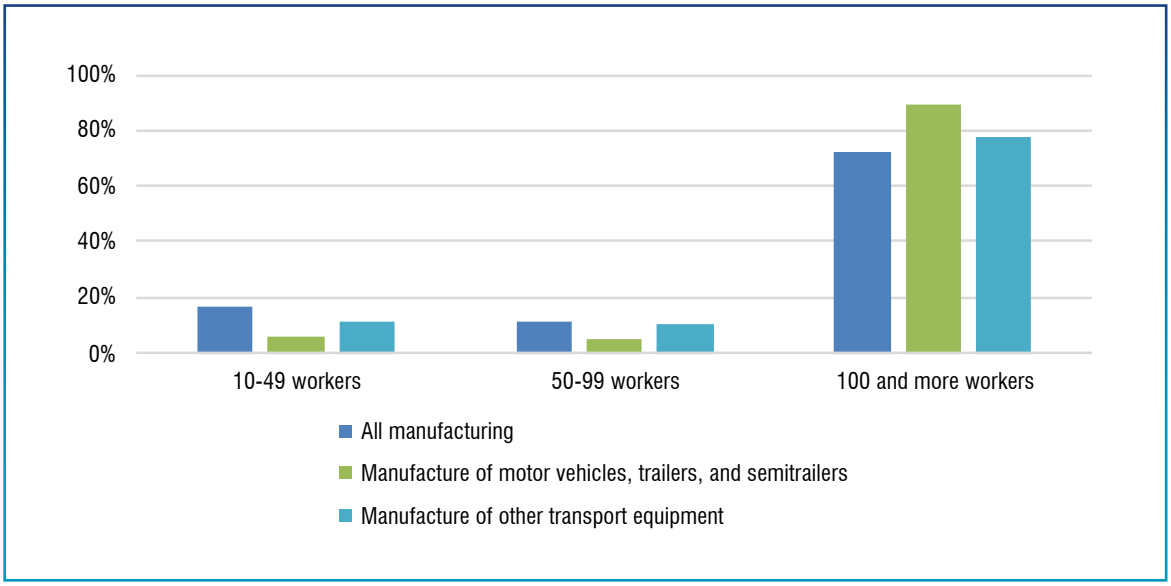
The active involvement of small and medium-sized enterprises (SMEs) and dynamism driven by firm entry and exit are typical traits of competitive and innovative sectors. However, the sector is relatively concentrated, potentially limiting dynamism and innovation, as well as the development of more inclusive manufacturing. There are approximately 1,200 firms operating 15,000 factories in Iran’s auto parts sector, but the key players include a few firms such as the Bahman Group, Iran Piston Manufacturing Company (IPMC) and Supplying Automotive Parts Company (SAPCO).

More generally, large firms tend to play an important role in the automotive sector. Compared with manufacturing as a whole, where 71.8% of workers are employed in establishments with 100 or more workers, 89.2% of workers in the manufacture of motor vehicles, trailers and semitrailers, and 78% of workers in the manufacture of other transport equipment are employed in these larger establishments (Figure 15). These larger firms account for an even larger share of total value added in their respective sectors.

Financial constraints are a particular area of concern for many small firms in the sector and can be a serious challenge to their beginning or expanding export activities. Internationalization typically introduces new risks in addition to cash flow management, including exchange rate risks, securing payments from abroad and difficulties with granting credit facilities to foreign customers. This makes finances for internationalization a twofold problem: on the one hand, gaining information on the new problems and financial mechanisms of internationalization and, on the other, having access to the additional funds required to finance international operations. Obtaining those funds will bring additional costs and difficulties due to the enhanced level of risk perceived by financial institutions and, in some cases, will require the use of internationalization-specific financial instruments.

In addition, a combination of technical and business management skills are needed in young firms for them to succeed in the sector. Therefore, the cultivation of entrepreneurial engineers, supported by incubator programmes, is needed.

Figure 15: Share of workers by establishment size (2014–15)



Source: Statistical Center of Iran.

Despite its strengths, the Iranian auto parts sector's potential has been held back by certain factors, including its competitiveness, limited technological intensity, domestic focus, need for investment, and limited dynamism. These challenges will need to be addressed in the strategy for the sector to make a meaningful contribution to export growth and diversification.

THE WAY FORWARD

- What objectives should be set in directing future growth in the auto parts sector?
- What actions are needed to achieve the strategy vision and what does this imply for trade with target markets?
- How can the implementation of the strategy best be supported?

The auto parts sector's strengths will need to be leveraged in order to overcome its challenges and realize the potential for more efficient and export-oriented growth. Specifically, the sector can build on the natural and exogenous assets, sector organization, and human and technology factors outlined above in addressing constraints related to price competitiveness, product quality and value addition, a domestic market focus, investment and sector dynamism. Actions organized under the strategy's three strategic objectives will work towards solving these challenges.

Vision and strategic objectives

The vision summarizes the sector strategy's ultimate goals and purpose. The vision for the auto parts sector of "Moving towards a dynamic sector with efficient production and high-quality exports" highlights the sector's potential to improve productivity, expand and upgrade its outputs, and reorient itself toward new international opportunities.

This vision is to be realized through actions under three strategic objectives that address the key constraints identified as limiting the sector's potential by attracting the investment needed to expand capacities and upgrade production, fostering opportunities for new entrants and SMEs, and connecting firms with international opportunities.

Strategic Objective 1: Attract investment to increase technology intensity and strengthen firm capacities for upgrading

Increasing investment in the auto parts sector and in other automotive activities will be critical in achieving the goals set out for the sector's growth. Expanded production to increase exports, improved technology use for increased firm efficiency, and the development of higher-quality and higher-value-added products are among the main benefits of investment. To these ends, the strategy will include actions on implementing regulatory reforms and targeting investment promotion activities. Financial initiatives and other actions to foster and support research and development and design activities in particular will also be needed.

Strategic Objective 2: Foster a competitive and dynamic sector by opening opportunities for new and small firms

A dynamic sector is needed to enhance competitiveness, particularly in the face of increasing international competition and the pursuit of international opportunities. Actions to improve access to finance, especially among small firms with difficulties in accessing finance, will be among the actions to be taken under the strategy as a part of the strategic objective. Other actions can address administrative and regulatory constraints facing new firms.

Strategic Objective 3: Connect firms to international opportunities to compete globally

International markets have the potential to significantly increase demand for Iranian auto parts and to produce new opportunities for the sector's development. Over the longer term, the sector can be reoriented towards exporting through actions on improving market information promotion, particularly for smaller firms with limited individual capacities for these types of activities. Quality management and other technical factors affecting trade, including competition in domestic markets, will also be addressed.

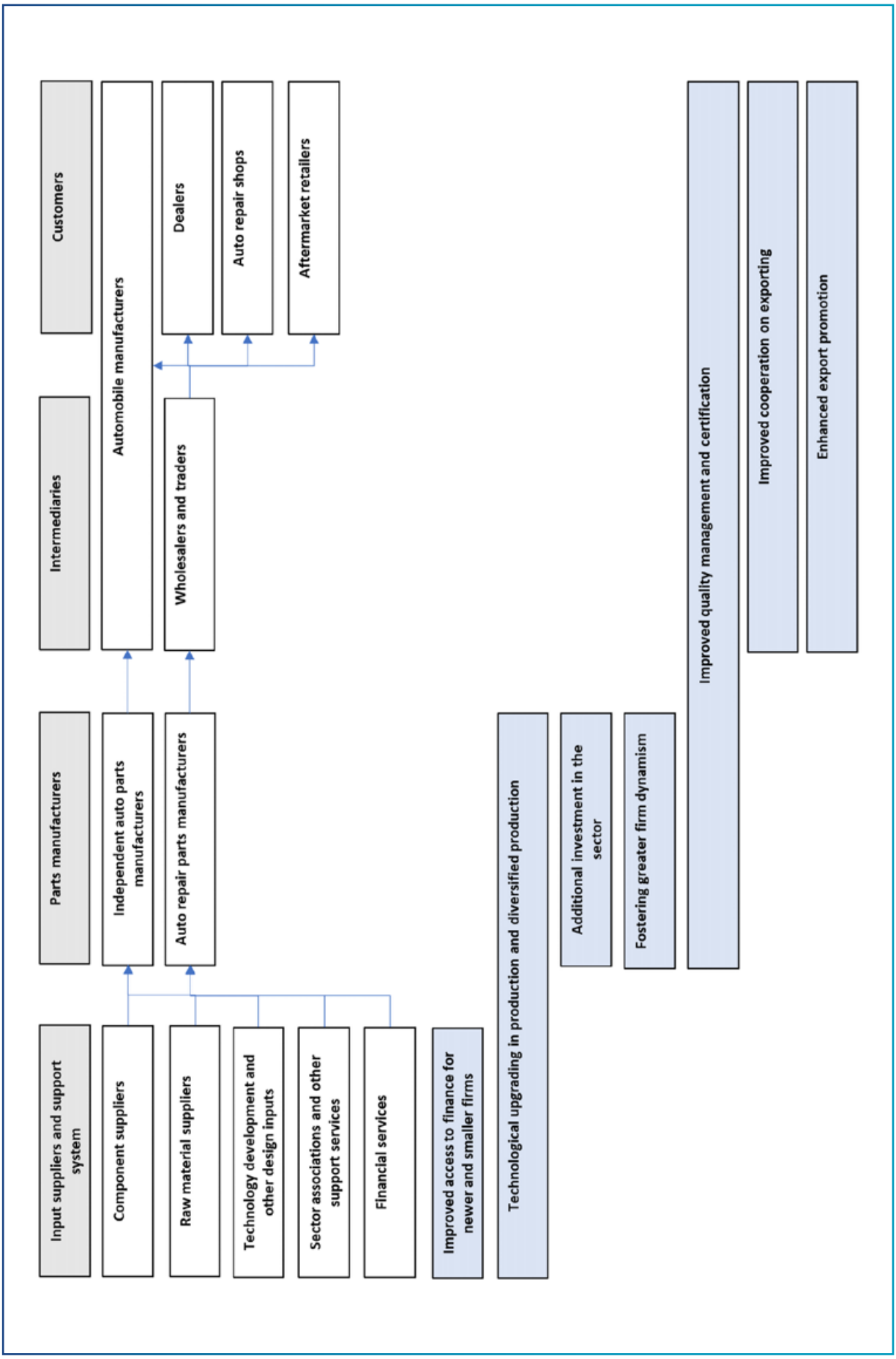


Figure 16: Future Iranian auto parts value chain

Target markets

Improvements to exporting will be made by reaching new markets and pursuing more intensive trade with existing partners. In addition to sector-level factors, the choice of target markets should consider factors such as political relationships, transportation links, economic and political stability in the target market, and target market links to other countries highly active in the sector, among others. Based on their historical trading relationship with Iran and expectations of their future growth, the European Union, Iraq, the Russian Federation and China are expected to be particularly important export markets for auto parts. Succeeding in these markets, however, will require exporters to adapt to these markets' requirements and expectations. Gradual approaches will be needed in moving into these markets, building from working through export representatives to building firms' own presence as experience is gained.

EUROPEAN UNION: AN IMPORTANT EXPORT MARKET WITH THE POTENTIAL FOR AN INCREASED IRANIAN MARKET SHARE

The European Union is a major producer of motor vehicles and market for auto parts. It imported $177.8 billion in motor vehicle parts in 2019. The largest suppliers to the market from outside of the European Union were China (3% of total imports) and Japan (2.8%). Succeeding in the European market will be challenging for Iranian exporters with limited experience there, however.

As a growing vehicle producer, the Slovak Republic (Slovakia) may represent an important stepping stone for Iranian suppliers looking to increase their presence in Europe. In 2019, Slovakia exported $23.9 billion in motor vehicles, primarily to other European markets – Germany, France and the United Kingdom of Great Britain and Northern Ireland were its three largest markets. Motor vehicles are Slovakia's most important export product category, having increased from 20.3% to 32.4% of export value in 2010–19.

Slovakian producers are accustomed to working with international partners. The value of imported parts totalled $12.1 billion in 2019. These imports thus represented 13.2% of all Slovak imports, up from 7.4% in 2010. Most of these imports, however, have come from nearby Germany (31.4%) and the neighbouring Czech Republic (Czechia) (13.5%), though distant Korea is relatively important as the 5th largest source of imports (9%). Iran has historically exported little or no parts to Slovakia, however.

Given the sector's strong vehicle exports, much of the potential for improving Iranian exports to Slovakia lies in supplying vehicle producers. Major vehicle manufactures active in Slovakia include Volkswagen, Kia, Groupe PSA and Jaguar. Slovakia's auto sector is known for the quality of production in addition to its scale, and high-value vehicles, including the Porsche Cayenne, are mainly produced in Slovakia (though the Cayenne is assembled in Germany). Targeting countries that produce higher-quality vehicles – rather than focusing only on low-cost production – creates new opportunities for the Iranian auto parts sector.

Though it has a small market share, Italy is an important export destination for Iranian auto parts producers. Most of Iran's auto parts exports to Italy are unclassified by type, followed by brakes and clutches. While Iran is not a major supplier of parts to the Italian market, accounting for just 0.3% of total imports, 31.4% of Iranian exports from the sector went to Italy in 2018. It is also a major importer, having purchased $8.9 billion in auto parts from abroad in 2018. Germany, France, the Republic of Poland, China and the Kingdom of Spain lead parts imports in the Italian market. Most of Italy's auto parts imports are accounted for by non-classified components, gearboxes and brakes.

Both vehicle manufacturing and aftermarket sales are attractive markets for auto parts in Italy. It is a major manufacturer of motor vehicles, having produced 1.1 million vehicles in 2018. Italy is also home to a large base of individual consumers as the world's 9th largest motor vehicle market; in 2018, 2.1 million vehicles were sold.

Europe's market access is fairly open to Iranian products. Most-favoured-nation (MFN) duties of 3%–4.5% apply to imports of auto parts from Iran. Import requirements applied are limited to requirements on labelling, certification, and origin of materials and parts. Whole Vehicle Type-Approval (WVTA) is an EU-wide certification for motor vehicles and parts.

Significant changes would be needed among many exporters to streamline logistics and distribution in the European market. Logistics in the automotive sector are highly digitalized, and top suppliers to European vehicle manufacturers tend to make use of information and communication technology (ICT) tools for vertical integration with their partners. At the same time, increased flexibility in the sector will open opportunities for new participants, particularly those able to cooperate in innovation and design.

The size of the European market presents opportunities for expanded exporting, though succeeding there will also be a challenge. Improvements in quality and increased compliance with international quality certifications would help new exporters to enter the market. Consortia may be helpful in managing investment in more efficient supply chains as well as in sharing costs on connecting with clients and branding and promotion.

The European aftermarket – including sales to dealers, fleet management, mobility services, and service providers – sector is growing, but remains complex even as just-in-time delivery is becoming increasingly important. There is a risk that the integration of information and communication technology in vehicles and parts will, in future, also give automakers an increased aftermarket role, changing their relationships with parts suppliers. Quality is the primary factor in customer decision-making. Nearly all automakers expect International Organization for Standardization (ISO) certifications, on top of other specific requirements.

IRAQ: AN ESTABLISHED PARTNER IN AUTOMOTIVE TRADE

Iraq is a fairly established trade partner of Iran in auto parts, having been the largest import market since 2011. The Iraqi market is very important to Iranian exports – the $26.3 million in auto parts that Iran exported to Iraq in 2018 represented one-third of Iran's auto parts exports, but just 6.1% of Iraq's auto parts imports. Iran was the 5th largest source of Iraq's imports in 2018, behind the United Arab Emirates, China, Korea and Turkey. Iran is a particularly important supplier of mufflers and exhaust pipes and of wheels, accounting for 93.4% and 87.6% of Iraqi imports respectively.

Iranian automotive firms have also been active in the Iraqi sector, directing trade in parts. Automaker Iran Khodro (IKCO) established a new production line in Alexandria in 2016, using semi-knock-down kits imported from Iran. However, bilateral trade has been affected by the re-imposed sanctions, slowing Iranian vehicle exports and leading automakers in Iraq to seek exemptions on auto parts needed in assembly.

Imported vehicles and parts were previously not subject to tariffs in Iraq. This has changed with the recent imposition of tariffs of 15% on auto parts and 8%–10% on motor vehicles.

Consumers in Iraq place high value on quality. There is significant aftermarket competition from low-cost second-hand imported parts, which consumers tend to perceive as being of higher quality than imports from China and other producers of lower-cost imports. This market has been estimated to be worth at least $4 billion per year.

Iraq's auto sector has room to grow; 53,528 motor vehicles were sold in Iraq in 2018, making it the 63rd largest global market. While this represents an increase from the 24,800 vehicles sold in 2016, it is well below the peak of 165,000 vehicles sold in 2010. The realization of this additional potential may take some time, however. GDP growth is expected to pick up in the short term, before moderating in the medium term.

Priorities for improving the prospects for Iranian auto parts exports to Iraq include maintaining access to the market in the face of sanctions, particularly in supplying the State Company for Automotive Industry. Auto parts exporters looking to expand their market share in aftermarket sales would have to compete with other imports on price or quality. There may be opportunities for exporters to increase their exports of a wider range of auto parts. Improvements to qualify, certification and branding would all be important in making gains in this market segment, in addition to remaining competitive in price.

RUSSIAN FEDERATION: ROOM TO GROW AUTO PARTS EXPORTS

Iranian auto parts exports to the Russian Federation have been somewhat limited. Out of Iran's total $280.5 million goods exports to the Russian Federation in 2018, just $2.5 million were of auto parts. This represents a very small share of the Russian Federation's $9 billion in total auto parts imports, led by imports from Japan ($1.3 billion), Germany ($1.3 billion) and Korea ($1.2 billion). Radiators and suspension systems are the largest product categories of Iranian exports.

Despite the limited trade at present, there is a large potential for increased auto parts exports to the Russian Federation, according to ITC estimations. The removal of trade frictions would lead to an estimated $4.9 million increase in exports, and anticipated growth in the Russian market would add a further $3.2 million to exports.

If successful, efforts to facilitate trade in the near term could make the Russian Federation a particularly attractive export market. Indications of the government's interest in working with Iran to overcome the constraints of sanctions could improve prospects for the export relationship in future. Auto parts imported from Iran are subject to a 5% most-favoured-nation (MFN) duty and a range of import requirements on labelling, quality and safety, and testing and certification, among others.

Imported auto parts end up being used in the sizeable Russian vehicle manufacturing sector as well as in aftermarket sales and services. In 2017, 1.6 million motor vehicles were produced in the Russian Federation. There have been discussions on the joint production of vehicles in Iran, Turkey and the Russian Federation through the design and use of a common platform for several different models, though the feasibility of this arrangement and the opportunities it would open for Iranian parts suppliers remain unclear.

There is also a large vehicle market, and high levels of ownership create demand for spare parts and repair services. The size of the Russian spare parts market was estimated at $24 billion in 2017, led by sales in tyres, suspension parts, and oils and technical fluids. Demand for vehicles has slowed with sluggish GDP growth; however, 1.8 million vehicles were sold in 2018, representing a slight recovery from recent years, but still below the peak of 3.1 million in 2012. Slow but continued growth in the sector is expected over the medium term.

Expanding auto parts exports to the Russian Federation will require firms to take advantage of opportunities to expand their market shares and to realize growth through increased demand in general. Exporters should, however, be prepared for volatility in demand, as the growth prospects of the Russian economy are highly dependent on external factors.

CHINA: UNTAPPED POTENTIAL IN A GROWING MARKET

In addition to being a major exporter, China imported a total of $29.3 billion in auto parts in 2018. Among categorized types of auto parts, gearboxes, steering wheels and brakes had the highest import value. Germany, Japan and Korea are the largest sources of auto parts imports to the Chinese market.

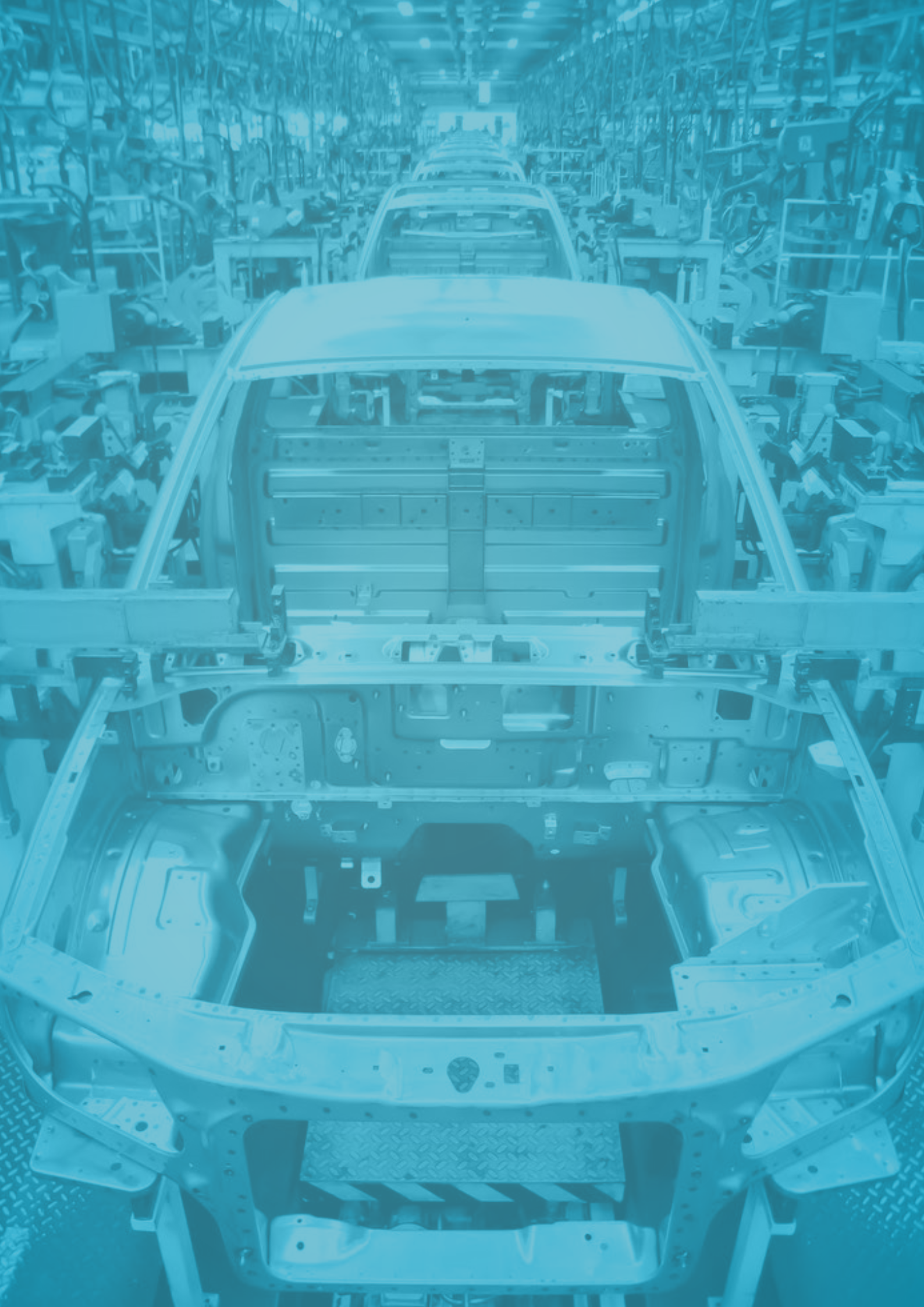
While Iran accounts for extremely small amounts of this trade, there is an estimated $8 million in untapped export potential in Iranian trade with China in auto parts. Of this, $4.9 million would be realized by resolving trade frictions, and the additional $3.2 million could be achieved through the growth of the Chinese market.

Most-favoured-nation (MFN) duties of 6% are applied to imports from Iran, along with general and specific import requirements for inspection and certification, processing history, and distribution and location after delivery, among others.

Aftermarket sales in China are becoming increasingly attractive to parts suppliers, though the country also has an extensive auto manufacturing sector; 29 million vehicles were produced in China in 2018. China is the world's largest market for motor vehicles. In 2018, 28.1 million vehicles were sold. Increasing saturation and slowing growth in GDP and incomes is affecting the market, however; 2018 was the first year in more than a decade in which the year-on-year growth in vehicle sales was negative. The total value of China's automotive aftermarket was $118 billion in 2015. While still somewhat low, the increasing average vehicle age is contributing to the growth of sales in replacement parts.

Realizing the opportunities present in the Chinese market will be challenging for Iranian firms with little experience or recognition in the country. Developing new relationships with original equipment manufacturers (OEMs) and wholesalers will be critical to success in supplying vehicle manufacturing, as well as the growing aftermarket sector. Collective efforts, such as through export consortia, would help firms to manage the costs of these activities. Efforts to attract investment from Chinese firms through joint ventures and other arrangements would also help to join supply chains, and the adoption of expected designs, standards and technologies.

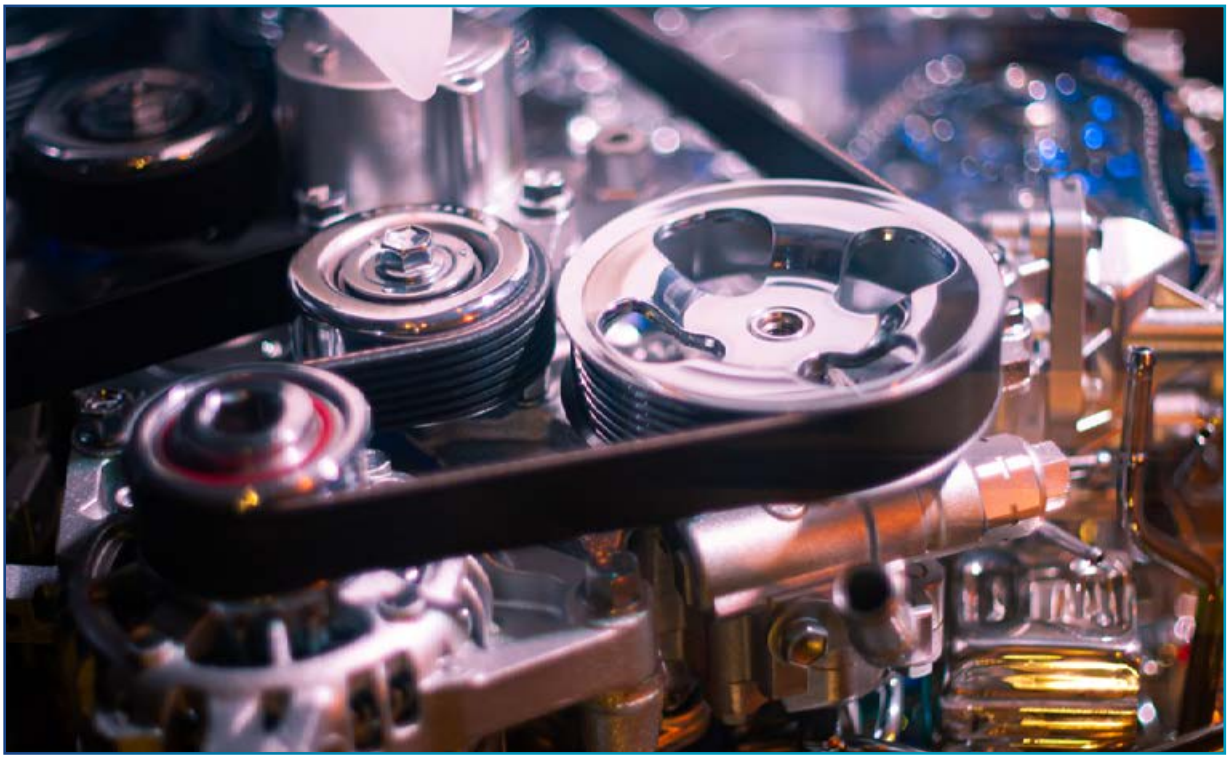
In a rapidly digitizing economy, e-commerce is playing an increasingly important role in distribution in the Chinese market, affecting the traditional supply chain in auto parts. Manufactures and distributors will need to adapt their products and ways of doing business (regarding promotion, logistics, warranty and terms of credit, etc.) to accommodate this change, making greater use of both business-to-business (B2B) and business-to-consumer (B2C) channels.



PLAN OF ACTION

To achieve the vision and strategic objectives discussed, a robust, actionable and realistic strategic plan of action (PoA) is required. This is provided below, and constitutes the heart of this strategy. The PoA is structured along the three strategic objectives described above and their operational objectives. For each objective, the PoA outlines detailed activities and their implementation modalities, which include:

- Priority: Priority 1 being the highest and 3 the lowest;
- Start/end dates: The desired time-frame of the activity;
- Reform or project: Categorization of the type of activity;
- Targets: Quantifiable targets that allow complete monitoring of the activity during the implementation stage;
- Leading implementing partners: One single accountable lead institution per activity, which may have a technical role or only an oversight and coordination role;
- Supporting implementing partners: Any other institution that should be involved at any stage of the activity's implementation.



Strategic objective	Operational objective	Activities	Priority 1=High 2=Med. 3=Low	Implementation period					Reform or project	Targets	Leading implementing partner
				2021	2022	2023	2024	2025			
1. Attract investment to increase technology intensity and strengthen firm capacities for upgrading	1.1. Enhance investment targeting and promotion	1.1.1. Develop a sector-specific value proposition for potential investors for the auto parts and vehicle manufacturing sector, with profiles of targets to prioritize, focused on expanding production capacity and incremental innovation/upgrading	2						Project	• An auto parts investment plan produced	Organization for Investment Economic and Technical Assistance of Iran
		1.1.2. Establish a dedicated programme on automotive investment promotion within the Organization for Investment Economic and Technical Assistance, covering opportunities across the value chain	3						Project	• An automotive sector programme, including coverage of auto parts production, is established within the Organization for Investment Economic and Technical Assistance of Iran	Organization for Investment Economic and Technical Assistance of Iran
	1.2. Incentivize new investment in the sector	1.2.1. Support dialogue and the development of policy favourable to innovation across the automotive value chain through the establishment of an automotive innovation and productivity council, including representatives from the auto parts and vehicle manufacturing sectors, government and academia/research institutions	2						Reform	• An automotive innovation and productivity council is established with diverse membership, and at least four meetings are held • A list of policy proposals is agreed to by the council	Ministry of Industry, Mine and Trade; Iranian Auto Parts Manufacturers Association; Iran Vehicle Manufacturers Association
		1.2.2. Redesign existing tax and subsidy polices for the sector to ensure sufficient weight is given to tax credits, research and development expenditure deductions, research grants and other measures incentivizing investment in innovation	2						Reform	• A review document on relevant fiscal policies is produced • A list of reform proposals is produced	Ministry of Economic Affairs and Finance
		1.2.3. Prepare for investment in special zones that are better linked to the domestic economy by: • Reviewing and identifying opportunities for regulatory harmonization between special zones and the domestic sector • Providing lead and foreign-invested firms with information on domestic suppliers	3						Reform	• A review of regulatory differences and opportunities for harmonization across special zones and the rest of the country is produced • A regularly updated resource on domestic suppliers is produced and made available to larger active firms in Iran	Organization for Investment Economic and Technical Assistance of Iran

Strategic objective	Operational objective	Activities	Priority 1=High 2=Med. 3=Low	Implementation period					Reform or project	Targets	Leading implementing partner
				2021	2022	2023	2024	2025			
1. Attract investment to increase technology intensity and strengthen firm capacities for upgrading	1.3. Foster innovation and technological upgrading	1.3.1. Work in collaboration with firms to develop skills complementary to innovation – including specific technical skills and general skills in areas such as digital technologies – and establishing new means of recognizing and certifying workers who have developed skills through on-the-job training and other non-formal means of education	1						Reform	• Four trainings on technical skills held, targeting workers in the auto parts sector • A testing/confirmation and certification programme for skills acquired on the job established	Ministry of Industry, Mine and Trade
		1.3.2. Incorporate the development of essential skills for the sector in formal education programmes and raising awareness of career opportunities in the sector among graduates of engineering and other technical and applied science programmes	2						Reform	• A proposal paper produced on incorporating sector-relevant technical skills in higher education, through either the introduction of new programmes and courses or addition of material to existing courses	Ministry of Education
		1.3.3. Review intellectual property protections relevant to the development and adoption of new technologies in the auto parts sector, in collaboration with government and the private sector, with input from potential international partners	3						Reform	• A working group representing sector stakeholders established • A review of relevant intellectual property protections produced by the working group	Ministry of Justice; Iranian Research Organization for Science and Technology
		1.3.4. Help to lower the cost of technological transfer by assisting firms to identify potentially useful technologies, reducing barriers to importing machinery and equipment, and recruiting international experts or trainers	1						Reform	• Two training sessions held for auto parts producers with experts on international tools and technologies relevant to their production	Iran Trade Promotion Organization

Strategic objective	Operational objective	Activities	Priority 1=High 2=Med. 3=Low	Implementation period					Reform or project	Targets	Leading implementing partner
				2021	2022	2023	2024	2025			
2. Foster a competitive and dynamic sector by opening opportunities for new and small firms	2.1. Address barriers to firm entry and growth	2.1.1. Review and reform administrative procedures involved in the establishment and registration of new auto parts firms, including the introduction of a one-stop shop for required registration procedures	1						Reform	• A list of proposed reforms for administrative streamlining is produced • A review paper is prepared on establishing a streamlined firm registration service	Ministry of Industry, Mine and Trade
		2.1.2. Review competition policy affecting the sector, especially those regarding the purchasing power of domestic vehicle manufacturers and their relationships with suppliers, to ensure that there are sufficient opportunities for new entrants	2						Reform	• A report is produced, reviewing specific regulatory and legal barriers to competition	Ministry of Industry, Mine and Trade
		2.1.3. Build on existing supports to establish a business incubator focused on supporting innovative new firms in the auto parts sector with an export orientation	1						Project	• A business incubator established, focused on the auto parts sector, with at least 10 beneficiaries	Ministry of Science, Research and Technology
		2.1.4. Set up an SME and entrepreneur mentorship programme for the sector, offering long-term coaching on business development	1						Project	• A mentorship programme for small and new auto parts firms established, with at least 20 participants	Ministry of Industry, Mine and Trade
	2.2. Facilitate access to finance for new and smaller firms	2.2.1. Organize consultations with firms, financial institutions and financial sector regulators on improving access to finance among new and small auto parts manufacturers, including discussion on: • Revising collateral, term length, and other borrowing requirements and offers, including short-term export credit insurance • Developing a royalty scheme to support innovative new firms and products at the proof of concept stage to foster growth in new markets • Considering the relevance of alternative forms of financing in the sector, including asset-based finance, alternative forms of debt, hybrid tools and equity instruments • Revising government support programmes, such as loan guarantees, to keep borrowing affordable • Making use of financial technology (fintech) and digital tools to lower transaction costs and improve risk management	1						Reform	• At least two meetings held with auto parts SMEs, financial sector representatives and other relevant stakeholders on financial access issues faced by the sector • A list of reform proposals largely agreed to by meeting participants produced	Central Bank of Iran
		2.2.2. Offer information on export financing options and improving the financial literacy of small firms in the sector through targeted information campaigns and training programmes	2						Project	• Online and print material produced targeting auto parts SMEs on normal and export-oriented finance issues • At least two trainings held on financial literacy, targeting auto parts SMEs	Central Bank of Iran

Strategic objective	Operational objective	Activities	Priority 1=High 2=Med. 3=Low	Implementation period					Reform or project	Targets	Leading implementing partner
				2021	2022	2023	2024	2025			
3. Connect firms to international opportunities to compete globally	3.1. Improve access to trade information	3.1.1. Develop a reference resource for firms on target export markets, including information on compliance with customs rules and other market access issues, market trends and important customers (among original equipment manufacturers, wholesalers and distributors, and aftermarket firms)	1						Project	• A print and online resource on at least five major export markets is produced	Iran Trade Promotion Organization
		3.1.2. Offer information, assistance with matchmaking and international networking, capacity building, and training on the technical and business aspects of international trade for firms through the Iranian Automotive Parts Manufacturers Association	1						Project	• A sector-specific support service established and promoted to auto parts SMEs	Iranian Automotive Parts Manufacturers Association
		3.1.3. Increase awareness among auto parts SMEs and other target beneficiaries of available information sources and assistance on exporting	2						Project	• At least two information sessions are held with auto parts SMEs on access to information on exporting	Iranian Automotive Parts Manufacturers Association
	3.2. Strengthen export promotion and support activities	3.2.1. Facilitate the formation of a national export consortium for auto parts manufacturers to promote an increased export orientation in the sector by assisting smaller firms in the sector in sharing the costs to trade and market development	1						Project	• A national export consortium for auto parts is established	Iranian Automotive Parts Manufacturers Association
		3.2.2. Provide technical assistance and facilitate discussion among stakeholders, including firms and sector associations, on topics such as: • The design and scope of the consortium, including whether to limit shared activities to promotion or to also include sales • Target markets • Promoter selection • Financing • Membership requirements and responsibilities	2						Project	• A support service is established • A resource on accessing expert information is established	Iranian Automotive Parts Manufacturers Association
		3.2.3. Enhance in-market promotion of auto parts exports – particularly in target markets – through participation in trade fairs and campaigns targeting major and high-potential buyers	1						Project	• Iranian auto parts manufacturers are represented at four or more trade fairs targeting high-potential markets	Iran Trade Promotion Organization; Iranian Automotive Parts Manufacturers Association

Strategic objective	Operational objective	Activities	Priority 1=High 2=Med. 3=Low	Implementation period					Reform or project	Targets	Leading implementing partner
				2021	2022	2023	2024	2025			
3. Connect firms to international opportunities to compete globally	3.2. Strengthen export promotion and support activities	3.2.4. Provide a platform for collecting and presenting information on Iranian auto parts manufacturers, targeting foreign importers	2						Project	• A directory of auto parts manufacturers and products is produced	Iran Trade Promotion Organization; Iranian Automotive Parts Manufacturers Association
		3.2.5. Review trade policy, with private sector input, from the perspective of the development of an auto parts sector active in global value chains	2						Reform	• A review document is produced	Ministry of Industry, Mine and Trade
		3.2.6. Provide firms with information and training on the benefits of participation in global value chains, opportunities for doing so, and the required reforms needed to their practices to benefit from these opportunities	3						Project	• At least two information sessions are held with auto parts SMEs on global value chain (GVC) opportunities and prerequisites	Ministry of Industry, Mine and Trade
	3.3. Build quality management capacities	3.3.1. Develop a campaign to raise firms' awareness of the benefits of being certified with international standards relevant to the sector (e.g. ISO/TS 16949 and ISO 9001/2000)	2						Project	• At least two information sessions are held with auto parts SMEs on relevant certifications	Iranian Automotive Parts Manufacturers Association
		3.3.2. Provide firms with information, support, and training on compliance and certification procedures related to domestic and international quality standards	2						Project	• At least two information sessions are held with auto parts SMEs on compliance and certification processes • An assistance service is established, targeting SMEs	Iranian Automotive Parts Manufacturers Association
		3.3.3. Develop a voluntary quality rating system for auto parts with parts and vehicle manufacturers designed for use in the Iranian primary market and aftermarket, applicable to products manufactured domestically and internationally	1						Project	• A voluntary quality rating system is established • Information on the system is shared with major buyers	Iranian Automotive Parts Manufacturers Association
		3.3.4. Collaborate with private sector representatives on coverage, requirements, certification, promotion and other core activities that can be managed by an independent body	3						Project	• An independent body with public and private sector representatives is established to manage sector-specific quality measures	Iranian Automotive Parts Manufacturers Association
		3.3.5. Establish a grant scheme to support businesses' internationalization via product certificates	3						Project	• A grant scheme is established and funded	Ministry of Industry, Mine and Trade

GUIDELINES ON STRATEGY IMPLEMENTATION

The objective of the Auto Parts Strategy for Iran is to create an enabling environment for auto parts production and processing to realize its potential and contribute to the country's exports, growth and industrial development. Achieving this ambitious objective will depend on the industry's ability to implement the activities defined in this strategy.

It is the translation of priorities into implementable projects that will contribute to achieving the substantial increase in export competitiveness and export earnings envisaged under the strategy. These will be driven by reforming the regulatory framework, optimizing institutional support to exporters and strengthening firms' capacities to respond to market opportunities and challenges. Allocation of human, financial and technical resources is required to efficiently coordinate, implement and monitor work on the strategy.

Successful execution of activities will depend on stakeholders' abilities to plan and coordinate actions in a tactical manner. Diverse activities must be synchronized across public and private sector institutions to create sustainable results. Therefore, it is necessary to foster an adequate environment and create an appropriate framework for the strategy's successful implementation.

Key to achieving the targets will be coordination of activities, monitoring progress and mobilizing resources for implementation. To that effect, industry representatives recommended that an advisory committee of public sector and business representatives for the auto parts sector be rapidly established, operationalized and empowered. The advisory committee is to be responsible for overall coordination, provision of policy guidance and the monitoring of industry development along the strategic orientation.

It is recommended that the advisory committee be empowered to meet quarterly and to implement the following functions:

- Create a shared understanding of key market challenges and opportunities facing the sector;
- Set goals and targets that, if achieved, will strengthen the sector's competitive position and enhance Iran's overall capacity to meet markets' changing demands;
- Propose key policy changes to be undertaken and promote these policy changes among national decision makers;
- Support the coordination, implementation and monitoring of activities in the sector by the government, business, institutions or international organizations to ensure alignment to goals and targets, as required to contribute to resource identification and alignment.

As part of the overall trade policy and NES design process, it has been recommended that an inter-ministerial and multisectoral business council be organized and structured to address overall challenges and opportunities to Iran's trade performance. It is recommended that chairs of advisory committees, such as that for the auto parts sector, be members of the council to consult on key trade thematic areas ranging from policy to regulations and trade negotiations.

The presence of the advisory committee to oversee the strategy's implementation is a key success factor, but it is not sufficient to effectively fulfil its assigned functions. The strategy's success depends on business sector support and participation in implementation, proactive networking and communication, and resources for implementation (Table 8).

Table 8: Key success factors for effective implementation

Factor	Details
Business sector support and participation in implementation	• The business sector clearly expressed its willingness to contribute, directly or in partnership with public institutions, to the strategy's implementation. Their implementation efforts can range from providing business intelligence to institutions to contributing to project design, promotion and branding, and policy advocacy, etc. In brief, the business sector's practical knowledge of sector operations is essential to ensuring that the strategy remains aligned to market trends and opportunities.
Proactive networking and communication	• The key implementing institutions detailed in the PoA need to be informed of the strategy's content and the implications for their programming over its implementation period. This networking and communication is essential to build further ownership and provide institutions with the opportunity to confirm the activities they can implement in the short to long term. It will be important for the members of the advisory committee and other institutions to reach out to relevant institutions nationally to create awareness and support for the development of the auto parts sector.
Resources for implementation	• The advisory committee, in collaboration with other institutions, will need to leverage additional support for efficient implementation. Effective planning and resource mobilization is indispensable in supporting strategy implementation. Resource mobilization should be carefully planned and organized. • As the auto parts sector is a priority of the NES, the government should define annual budget allocations and support to drive the industry growth. This commitment will demonstrate clear engagement towards strengthening the sector and will encourage private partners to support development. In addition to national budget support, resource identification will require the effective targeting of foreign investors in line with the strategy's priorities. Investment flows to Iran should also be considered as a valuable driver of strategy implementation and overall industry development. • The various implementation modalities detailed will determine the success of the strategy's implementation. However, high-level support from the government, in collaboration with strong championship by the business sector, will be the real driver of successful strategy implementation.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Trade Promotion Organization of Iran
International
Trade
Centre